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A tale of two bellies

The remarkable demographic difference between America and Europe

PRINT EDITION

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A tale of two bellies
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Politics this week

Aug 22nd 2002
From The Economist print edition

After the deluge

EPA

Two of Europe's biggest rivers, the **Elbe** and the **Danube**, flooded towns and villages in Germany, the Czech Republic and, less extensively, Hungary, whose capital, Budapest, managed to stay above the waves. Dresden, the capital of the German state of Saxony, did not escape. Across the region, more than 100 people died and hundreds of thousands were forced out of their homes. Repairs in Germany, the worst hit, may cost *euro*15 billion ($15 billion).

See article: The costs and consequences of floods in Germany and Central Europe

A report commissioned by **Germany's** government and chaired by a Volkswagen director, Peter Hartz, proposed labour-market reforms that included ways to create more temporary and part-time jobs and to make it harder to get the dole. Chancellor Gerhard Schröder endorsed the report's suggestions. Pre-election grandstanding and panic measures, declared the conservative opposition.

See article: Germany's labour-market reforms

Five members of a previously unknown Iraqi opposition group seized the **Iraqi embassy in Berlin**, calling for Saddam Hussein's overthrow. German commandos removed them without bloodshed after five hours.

See article: Hostage drama over

A lethal week in **Russia**: at least 115 Russian soldiers were killed when a military helicopter was shot down in the disaffected Russian republic of Chechnya; a gas explosion killed at least eight people in a block of flats in Moscow; and a member of the Duma, Vladimir Golovlev, was shot dead by assailants unknown.

See article: No end of the war in Chechnya is in sight

After one of **Britain's** biggest police searches, the bodies of two ten-year-old girls missing for 17 days from their homes in Soham, Cambridgeshire, were discovered in a nearby wood. A local school caretaker was charged with their murder; his partner faced charges related to the killing.

Cut down in their primary

Two controversial members of the House of Representatives lost their **primary races** in Georgia. Bob Barr, a critic of gun control, lost to another right-wing Republican. One black Democrat, Cynthia McKinney, a supporter of Arab causes, was beaten by another, Denise Majette, who attracted support from Jews around the country.

President George Bush summoned **senior security advisers** to a meeting in Texas. The White House insisted it was to discuss the transformation of the Defence Department, not an attack on Iraq. At a press conference, he said he was a patient man who would look at all options and consult widely before deciding how to change the regime in Iraq.

See article: Making the case

Two critical reports examining the way the New York fire and police departments acted on **September 11th** were released. They prompted pledges from the emergency services to improve their command procedures and communication.

Chrétien's adieu

Reuters

Jean Chrétien, prime minister of **Canada**, said that he would step down in February 2004. His leadership of the Liberal party faced a powerful challenge from Paul Martin, his former finance minister.

See article: Canada's prime-ministerial adieu

Argentina's government sent a draft letter of intent to the IMF and said that it hoped for a speedy but limited agreement to roll over its debts to the Fund itself. But the country's Congress approved two bills which partially reverse the repeal, demanded by the IMF, of a debtor-friendly bankruptcy law.

See article: Surviving in newly poor Argentina

In meetings with President Fernando Henrique Cardoso, opposition candidates who head the opinion polls for **Brazil's** presidential election were guarded about endorsing a recent IMF agreement. But they repeated their commitment to responsible macroeconomic policies in 2003. Brazil's currency and bonds had a stronger week.

China crisis

A state of emergency was declared in central **China** as the country's second-largest freshwater lake threatened to overflow, endangering up to 10m people. In the south, flash floods and landslides have killed 100 people in the past two weeks.

See article: The deluge

The United Nations began an investigation into allegations that up to 1,000 captured Taliban soldiers ended up in mass graves near Mazar-i-Sharif, in **Afghanistan**. The men are said to have died last November after being packed into sealed cargo containers by Northern Alliance soldiers for transportation to prison.

See article: Dead on arrival

Pakistan's president, General Pervez Musharraf, outlined sweeping constitutional changes giving him the right to dismiss an elected government and choose the heads of the armed services. He said that he would stay on as president for five years. General Musharraf maintained that the changes would strengthen democracy; critics claimed that they would strengthen his own grip on power.

See article: The general tightens his grip

Officials overseeing next month's vote for a new legislature in Indian-administered **Kashmir** asked for a change of personnel to ensure free and fair elections. Pakistan says a referendum should first be held to allow Kashmiris to choose between rule by India or Pakistan, or independence.

Muslim guerrillas in the southern **Philippines** beheaded two Christian preachers.

Genocidal? Not me

Augustin Bizimungu, a former head of Rwanda's army who is charged with being one of the chief architects of the 1994 genocide that killed 800,000 people, pleaded not guilty at the international tribunal

in Arusha.

Abu Nidal, a notorious Palestinian terrorist who was responsible for the murder of hundreds, died in Baghdad. The Iraqis say he committed suicide.

See article: Abu Nidal, terrorist

Israel's security forces arrested several members of a **Hamas cell** in East Jerusalem which, they claim, was responsible for the bombing of the Hebrew University.

Zambia, though facing famine, said it would accept food aid only if it contains no genetically modified product. Much of the food provided by the World Food Programme to the region comes from American farms, where modified grain is common.

AP

An Islamic appeal court in **Nigeria** upheld a sentence of death by stoning for adultery against a woman who was found guilty after bearing a child outside marriage.

The trial started in **Mozambique** of four railway workers accused of causing a train crash that killed 195 people.

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Business this week

Aug 22nd 2002
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Guilty

Michael Kopper, right-hand man to Andrew Fastow, **Enron's** chief financial officer, pleaded guilty to charges of fraud and money laundering. He is the first insider to admit to a criminal role in connection with the collapse of the energy giant and his testimony may be used against former colleagues, including Mr Fastow, increasing the chances of further successful prosecutions.

Entertainment news

AOL Time Warner agreed to pay $3.6 billion and give a stake in a new cable company to **AT&T** to unwind a partnership in Time Warner Entertainment. AT&T will exchange its 27.6% of TWE for cash and shares, and 21% of a cable subsidiary that AOL eventually plan to spin off.

Vivendi Universal's woeful results and crashing shares prompted Jean-René Fourtou, the embattled media company's chief executive, to send a letter to employees and shareholders reassuring them that he could put things right, although without really specifying how. Vivendi was also near to selling its 50% stake in Vizzavi, an Internet portal, to its partner in the joint venture, Vodafone, for some *euro*150m ($147m).

Sir Martin Sorrell, boss of **WPP**, was pessimistic about the prospects for the world advertising industry after announcing poor results at the advertising giant. Pre-tax profits fell by 17% in the first half compared with a year ago, to £210m ($303m); Mr Sorrell thinks that the world advertising slump may persist until 2004.

See article: Diminishing expectations

Still flying

As American airlines continue to languish, airlines elsewhere fared better. **Qantas** announced a 3% increase in profit for the year to the end of June compared with the previous 12 months to A$428m ($224m), partly aided by the demise of Ansett, its domestic rival, last year. It also announced a rights issue to raise A$800m; British Airways said that it would not participate. So BA's stake in the Australian airline will decrease from 21% to 17%.

Lufthansa beat expectations with an operating profit of *euro*332m ($298m) in the first half after cutting costs and capacity in the wake of September 11th. In recent weeks both KLM Royal Dutch and British Airways have announced profits in the past quarter.

Qwest for cash

Qwest Communications, an American telecoms company, made inroads into its debt-pile of over $26 billion with the sale of its directory-publishing business, QwestDex, for $7.1 billion, to two American private-equity firms, Carlyle Group and Welsh, Carson, Anderson & Stowe. The deal could save Qwest from bankruptcy—for the moment.

KPN lost *euro*9.3 billion ($8.5 billion) in the second quarter after the Dutch telephone company wrote off

some *euro*9 billion, mainly reflecting the plunging value of investments in third-generation mobile services outside its home market.

See article: More mobile trouble

Deutsche Telekom revealed losses of *euro*3.9 billion ($3.5 billion) in the first half but its hefty debts fell. The German telecom's company was also said to be considering a full or partial sale of VoiceStream, its American mobile business, to raise more cash.

Home improvements

Profits at **Home Depot**, America's largest home-improvement retailer, rose by 28% in the second quarter over a year ago to $1.2 billion as Americans continued to upgrade their homes. **Lowe's**, number two in the sector, announced a 42% increase in profits in the quarter to $467m.

Axa sharpening

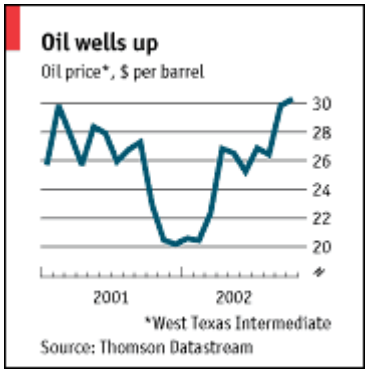
Axa, recently forced to defend its share price publicly, published results bettering expectations for the first half despite high insurance claims and weak financial markets. The European insurance giant saw operating profits increase by 17% to *euro*1 billion ($915m) putting on track to meet its target of increasing profits by one fifth for the year.

South Korea's government selected **Hana Bank** to take over **Seoulbank**, a state-owned rival, for an estimated 1.1 trillion won ($923m) in shares, turning down a similar cash offer from Lone Star, an American private-equity company.

The **FSA**, Britain's financial-services regulator, ruled out restrictions on short-selling by hedge funds. Some investors have blamed shorting by the funds for recent volatility in stockmarkets. The financial-services watchdogalso published a paper that considers ways to open hedge funds to retail investors.

Crude data

Oil rose above $30 a barrel for the first time in 18 months as talk spread of an American attack on Iraq and fears grew of a shortage of stocks. New figures revealing higher-than-expected stocks in America cooled things, for the time being at least.



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Demography in America and Europe

A tale of two bellies

Aug 22nd 2002
From The Economist print edition

The remarkable demographic difference between America and Europe

DEMOGRAPHY, said Auguste Comte, a 19th-century French philosopher, is destiny. Well, not exactly, is the correct reply, for other things matter too and even demographic trends can change over the decades. But it is certainly important, and its effects endure for longer, and have a wider impact, than most other social or economic forces. More attention should be paid to population trends, by politicians, economists, sociologists and even those studying international relations. For something extraordinary is happening, right now, in the populations of the United States and of Western Europe.

More strictly, the extraordinary change is taking place just in the United States. But if it continues, it will open up a remarkable gap between the rich countries on the opposite sides of the Atlantic, which could have big policy implications for both of them. At present, West European countries are following what seems to be a normal demographic path: as they became richer after the 1950s, so their fertility rates fell sharply. The average number of children borne by each woman during her lifetime fell from well above the "replacement rate" of 2.1—the rate at which the population remains stable—to less than 1.4 now. The United States followed that pattern too, until the 1980s. But then something astonishing happened: the American fertility rate reversed its decline, and even rose quite sharply, back almost to the replacement rate.

During the 1980s and 1990s, both America and Europe also admitted a lot of immigrants. But while Europe's immigration was enough merely to keep its population roughly stable, the combination of immigration and rising fertility—among native-born Americans as well as recent immigrants—meant that America's population actually grew, at rates exceeding most expectations. As our special report shows, if, as demographers now expect, America's higher fertility rates persist and even rise further, then during the next quarter century that country's population will rise from 281m now to 350m-400m, and by 2050 could be anywhere between 400m and 550m. Western Europe's population, meanwhile, will probably be falling.

The elixir of youth

So what? A bigger population will bring lots of problems, ranging from urban sprawl to costlier education, even, perhaps, new social tensions. Europe's much-vaunted advantage in the "quality of life" of its citizens could, on that theory, merely be enhanced by these trends. And a large population is not, on its own, a route to riches or to power, whether military or economic. If it were, India and China would long since have been the world's most powerful countries.

Yet America's demographic exceptionalism does not merely rely on raw numbers. It relies, rather, on the nature of the population growth, and what that growth will do to its demographic structure. If the rising fertility rate among native-born Americans persists, it will mean that the growth is steady—there will be no sudden addition of a huge pool of poor, as occurred with German unification—and a bit more balanced ethnically than was previously

Anyone who assumes the United States is now at the zenith of its economic or

political power is making a big mistake

assumed. The most important aspect, though, can be summed up in one word: youth. While Europe's population will, on average, be ageing, America's will stay much younger. That will increase the burden of education spending, but reduce the burden of pensions and health care for the elderly, especially towards the middle of the century. A younger population is likely to mean lower labour costs (as it did, for example, for Japan during the 1960s and 1970s, when its workforce was younger than America's) and, most likely, a more entrepreneurial culture.

In other words, you ain't seen nothing yet. These trends suggest that anyone who assumes the United States is now at the zenith of its economic or political power is making a big mistake. There are plenty of other ways in which America could weaken itself economically or politically, but demography will offer a fine basis for future growth, and strength. The United States could well become even more powerful than it is today even if—as is to be hoped—populous developing countries such as India and China also manage to get richer. Demography will, though, define the domestic political agenda in America, raising the importance still further of education and urban sprawl, and forcing both parties to try even harder to capture the hearts of Latino voters.

Older, wiser but weaker

Demography should set Europe's agenda, too. Europeans already know that their societies are ageing, and that they have to find ways to ease pension and health burdens. What these demographic trends also suggest, however, is that enlargement of the European Union to take in the poorer countries of Central and Eastern Europe is even more urgent than was previously thought. It will not make Europe younger, for the eastern countries' populations are also ageing, but it will bring some new entrepreneurial spark, especially if Turkey's application is taken seriously and especially if migration from the newcomers (and from elsewhere) into Western Europe is encouraged. If Europeans do not care about their position relative to America, then perhaps this should not matter. But all the talk, at least among politicians, of uniting to strengthen Europe's voice in the world, suggests that they do.

Enlargement alone will not be enough. If little else is done, the West Europeans will retain their fiscal burdens and rigid economies (see article) and watch admiringly (or sadly) as the real growth takes place to their east—or else, as seems all too possible, they will hamper that growth by forcing the newcomers to share their own restrictions and subsidies. Instead, Western Europe needs to bring the new sparkiness right into its midst, both by becoming more open to immigration and by encouraging more entrepreneurial vigour among existing citizens. It is not a case of having to copy American ways. It is a case of returning to the European ways that in the 1960s brought rapid economic growth—before public spending climbed, welfare states spread and regulations multiplied. History can help destinies, too.

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Banking strategy

Thanks a bundle

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The model of a vast, integrated financial firm is fast going out of favour

AMONG executives, it is not just Sandy Weill and his lieutenants at Citigroup who are alarmed at the $80 billion drop this year in the shares of the world's biggest financial institution. Until recently, Citigroup was also the most admired bank in the world. Executives at many lesser banks have set their course by Citi, the very model of a diversified financial-services group. The bank seemed to have everything: size, allowing economies of scale and a world reach; skill at integrating commercial with investment banking, should corporate customers demand both credit and advice; and fund-management and insurance channels, through which investment-banking products could be pumped, sorry, cross-sold. What is more, Citigroup seemed to make money. Yet if investors are now so savagely marking the Citigroup model down, what does that imply for the Citi-mimicking strategies of Deutsche Bank, UBS, J.P. Morgan Chase and others who hoped to use balance-sheet size to muscle into investment banking?

Fads come and fads go—heaven knows, not least among investors. It is possible that this share-price fall will prove a summer storm, of little consequence. More likely, though, it points to two profound, if tardy, discoveries about the integrated model of financial services.

First, that perhaps it was not such a bright idea to offer credit to investment-banking clients at less-than-market rates—even though this has been a chief calling card over the past few years for those commercial banks that wanted to get into the juicy business of investment banking. After all, it is precisely the riskiest borrowers, those who have trouble borrowing elsewhere, that are most likely to take up aspiring investment banks on their offers of credit. This is painfully obvious now that banks have the debt of seriously weakened or even bankrupt companies on their books.

Reputations are golden

Mr Weill, his defenders say, was canny enough largely to avoid this pitfall at Citigroup, which appreciated better than most the riskiness of its borrowers. Maybe so. But that leads directly to the second, more profound discovery. Citigroup knew that Enron, to which it was a big lender, carried risks. To counter the risks, the bank structured loans to the energy-trading giant in ways that were at once opaque and designed to ensure Citi stood at the head of the creditors' queue, should Enron ever run into trouble. Illegal or just too-clever-by-half?

Either way, Citigroup now has a problem of reputation. What once were presented as wonderful synergies now look like giant conflicts of interest. Size and complexity are no longer seen as virtues by customers, for the bigger you are, the more likely reputational shocks will come from unexpected quarters. Citigroup's reputation is also suffering elsewhere, notably from regulatory investigations into boom-time public offerings, and into the conflicted role of analysts such as Jack Grubman, a telecoms expert who quit Citi last week, pocketing $32m. Mr Grubman both advised investors and sat in on board meetings at WorldCom, now bust but once a client.

What once were presented as wonderful synergies now look like giant conflicts of interest

Conglomeration is being discredited astoundingly soon after America's Gramm-Leach-Bliley act pulled

down the last 1930s restrictions on financial conglomerates in 2000. A mistake? Not necessarily. This time it will be markets and customers who will vote for clearer, less conflicted sources of advice, credit and investment. Let the unbundling begin.

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Russia and its friends

Blowing your chances

Aug 22nd 2002
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Vladimir Putin's dealings with Iraq and Iran risk alienating his new friends in America

AP

IF YOU can judge a friend by the company he keeps, what does that say about the new friendship George Bush thought he had with Russia's Vladimir Putin? The Russian president's decision, after the September 11th attacks, to line his country up alongside America in the fight against terrorism seemed to mark more than an end to the long post-Soviet sulk about lost influence. He seemed to grasp, as others had failed to, that Russia's standing in the world will depend on the strength of its economy, not the tally of its missiles; and on how it helps tackle new threats, including terrorism and the spread of weapons of mass destruction, not on the mischief it can make. But Mr Putin's clear vision, which worryingly few of his diplomats and generals seemed to share, is going cloudy again.

Russia is to sign a new multi-billion-dollar trade agreement with sanctions-hobbled Iraq, despite that country's defiance of UN disarmament resolutions. And not only does Mr Putin insist on completing the controversial Bushehr nuclear power reactor in Iran—though its regime barely disguises its ambition to build a nuclear bomb—his government is now offering to build several more such reactors. Since both Iraq and Iran have long cheated on their proliferation promises, and are both founder members of Mr Bush's "axis of evil", all this seems calculated to offend. But it is not just Mr Putin's next invitation to Mr Bush's Texas ranch that is at stake. He risks damaging Russia's own interests as well.

Of course, even friends can disagree. Mr Bush's good-versus-axis-of-evil rhetoric grates on plenty of European nerves too. It makes sense for Russia to want to be on as good terms as possible with the neighbours. Iran in particular has influence in Russia's Islamic reaches, which, as this week's military casualties in Chechnya show, Mr Putin is still struggling to subdue. Moreover he insists that he is no proliferator. Yet Russia's record suggests otherwise: its firms have done more than most (aside from North Korea and China), sometimes with official connivance, to help others acquire longer-range missiles and nuclear, chemical and biological weapons.

Seen in this light, the new framework deal with Iraq looks custom-made for sanctions-busting. Russia denies this. It wants to get back the billions Iraq owes it, and, like France and others, position itself for new oil contracts when sanctions are eased. When it seemed that Iraq would wriggle out of both UN sanctions and weapons inspections, Russia defended it in the Security Council, hoping to be first in line for new business. When Mr Putin later co-operated with Mr Bush in devising "smarter" sanctions, Russia left no doubt that it still expected its commercial interests to be respected, whoever runs Iraq. The new agreement may be just another marker; its $40 billion figure for trade benefits is likely to prove vastly inflated.

Similarly, the proposals to build a clutch of new reactors for Iran are just proposals. Yet America and Russia had been groping towards a compromise over Bushehr. Russia has said it will manage the fuel for the reactor, preventing Iran from extracting its bomb-usable plutonium, and will press Iran to sign up to stringent new international inspections, making cheating harder. Just as it looked as if further damage to relations could be avoided, Russia has multiplied that risk. As Mr Putin ought to know, and as India's bomb programme proved, just about any civilian nuclear expertise can be useful to a determined weapons builder. So why give more?

Why Russia does it

The main motive is cash. To an economy that still bumps along selling mostly weapons, oil and gas, more reactors for Iran means more money coming in. That said, some Russian officials—still convinced that anything that annoys America must benefit Russia—will be only too happy to advise stepping hard on Mr Bush's toes.

Yet the missile and nuclear expertise Russia sells today could well be a threat to its own security tomorrow. In any case America and Europe, not Baghdad and Tehran, are the places where Mr Putin needs to look for trade and investment on a big enough scale to finance Russia's recovery. He now sits at the G8 top table and helped inaugurate a new NATO-Russia council. He has given Russia a chance to be accepted as a reliable partner by the West, not shunned as a trouble-maker. But he can still blow it.

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America and the Arab world

Slapping Egypt's wrist

Aug 22nd 2002
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The United States is right to demand more than oil and stability from its friends in the Middle East

AP

Get article background

FOREIGN aid, when not strictly humanitarian, is a political instrument, to be given or withheld for reasons of enlightened self-interest. America, having failed by other means to persuade Egypt to reconsider the unjust punishment of an American citizen, has said it will not be giving the Egyptians some extra money they had asked for. A generous price for a man, perhaps, but perfectly proper. But is this all it was? It could, perhaps, turn out to be the start of something important: America using aid and influence to encourage an opening up of the closed Arab world.

The Egyptians had asked for the money simply because Israel had been promised an extra $200m for “counter-terrorism” and American aid to the two countries, since their 1978 peace deal, is doled out on a three-to-two ratio. (Their yearly hand-outs are being very slowly phased out, but they still get close to $3 billion and $2 billion each, about one-third of America's foreign aid.) However it was unlikely that Egypt would ever have got the extra $134m; the House Appropriations Committee had already turned it down, and even the Israeli supplement has been temporarily swept away in a dispute over the budget. Nevertheless, George Bush went out of his way to tell Hosni Mubarak that since he had locked up Saadeddin Ibrahim, he should not expect any extra titbits.

Mr Ibrahim, a social scientist at the American University of Cairo with dual Egyptian-American citizenship, is well known at home and abroad. After a retrial, he was sentenced to seven years in prison on various charges, but mainly because he was said to have tarnished Egypt's image abroad. Saying publicly what a lot of Egyptians say privately, he spoke out against the repressiveness of the regime and the tawdriness of its elections. That so prominent a man was picked for punishment highlights the message Mr Mubarak was sending: however non-threatening your dissent, and however well-connected you may be, you had still better shut up.

What message is Mr Bush sending back? If it is a limited slap on the wrist, the affair could fade into being no more than a blip in the relations between two countries that need each other, even if they don't much like each other. But it could evolve into a much wider message, signalling a switch in America's traditional priorities.

Mr Bush's Arab world

Until now, the United States has chosen its Arab friends for their stability, their anti-radicalism, their oil, and their non-belligerence towards Israel. The fact that most of them have a dismal record on human rights, and are exceedingly reluctant to hold genuine elections (or indeed any elections at all) has weighed light in the balance. The rulers are safely pro-American, and the populations can, more or less, be kept quiet.

If America were a country like any other, its friends should be its own business, whatever their anti-social habits. But Mr Bush is ambitious. He intends to bring about the overthrow of the Iraqi regime, and he hopes for a just Israeli-Palestinian peace. Moreover, he speaks of these things happening in the context

of a visionary Arab world in which freedom, tolerance and moderation reign.

It is a lovely vision, and one that many of his Arab listeners share. But it jars with an American policy that has actively supported useful regimes without questioning whether they fit into that vision. No American voices have been raised at the way Egypt and some others bundle into jail elderly gentlemen who are as harmless and possibly as learned as Mr Ibrahim but happen to be convinced Islamists. And there is positive American encouragement for excessively nasty Arab habits when it comes to interrogating al-Qaeda suspects.

Yet, perhaps, this policy is now in the process of being rethought. Political America has recently been giving voice to its reservations about undemocratic Saudi Arabia, and the Saudis have been responding angrily (see article). Holding back aid to Egypt is an excellent sign, albeit symbolic. Next month, or so it is suggested, the administration may launch a programme for spending some of its dollars on Arab public institutions and public debate. What else? Well, one step is obvious to everybody bar the United States itself: put sensible conditions, such as a freeze on Jewish settlement of the occupied territories, on some of that lavish aid to Israel.

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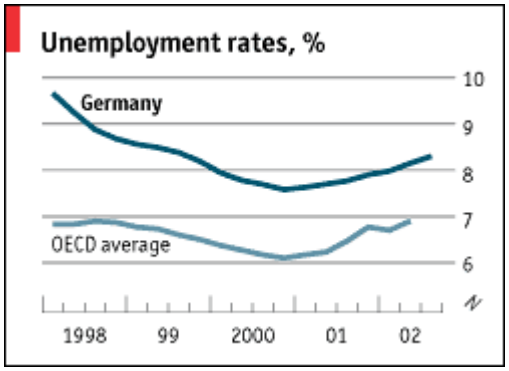
Germany's labour-market reforms

Too little too late, Mr Schröder

Aug 22nd 2002
From The Economist print edition

Germany's economy has long needed radical treatment, not tinkering

Get article background



YOU can hardly blame Germany's voters, a mere month before a general election which the chancellor is predicted by most pollsters to lose, for a cynical smirk at his endorsement of a belated plan to slash his country's woefully high rate of unemployment, the very issue that is most likely to spike his chances of re-election. Two years ago Gerhard Schröder promised to cut the number of Germans without jobs to less than 3.5m; today the figure is over 4m—exactly what it was when he took office four years ago. At nearly 8.3% by the OECD's measure and around 10% by its own calculation, Germany's unemployment rate is one of the highest in the rich world. Now, says Mr Schröder's friend, Peter Hartz, a Volkswagen director who chaired the commission that has unveiled the plan (see article), 2m more people will, if his recommendations are acted upon, have jobs within three years.

Phooey—and Messrs Schröder and Hartz should know it. This is not to say that Mr Hartz's suggestions, or at any rate most of them, lack merit. The idea of a “one-stop shop” where the unemployed can both find jobs and get welfare if they fail to do so has worked elsewhere. Giving staff at the newly-named “job centres” incentives for getting their “customers” into jobs is fine. Encouraging more Germans, through tax benefits and with other devices, to take temporary, part-time or low-paid jobs is sensible, as is cutting welfare if people refuse jobs and prefer to stay on the dole (if it is really done). So is pressing the young and single or childless couples to look for jobs beyond their home area. Providing incentives to get people out of the black market and into the legal one is good too.

Nor is it fair to scoff at the chancellor's entire economic record of the past four years. It was not his fault that the global economy slowed to a halt just as he entered his election year, after more than two years of pretty solid German growth and gently falling unemployment. Moreover, he has taken some bold and worthy steps. He embarked on tax-cutting reforms that were radical by Germany's standards. He made a start, albeit tentative but still quite daring for a Social Democrat, towards pushing people into private pension schemes.

It should also be acknowledged that Germany remains the powerhouse of Europe's economy. Its GDP is one-third bigger than either Britain or France, its closest competitors. German productivity is still high. Most Germans still have an enviably high standard of living. And it is hard to imagine any country in Europe being able overnight, without enormous pain and economic disruption, to embrace some 16m poverty-stricken inhabitants, as happened when East Germany was brought into the fold in 1990. A final point in Mr Schröder's defence is that Germans of nearly all political hues are wedded to the system of consensus and compromise that served them well during the post-war decades of rehabilitation. Their hostility to the idea of moving towards a more liberal economy, with a more free-market cut and thrust, is deep. Had he been bolder, his defenders say, Mr Schröder might well have come unstuck.

Yet he did miss a chance

But there the excuses must stop. Much more radical legislation is needed if Germany is to end its uncustomary stint as the West's economic laggard. The nub of Germany's economic problem goes beyond those aspects of labour-market rigidity identified by Mr Hartz. The country's high wage costs and

hugely uncompetitive social-security costs need to be tackled too. Hiring and firing in Germany is still far too difficult. The wage-setting practice whereby whole national sectors set a single rate is a recipe for inflexibility—and has been one reason for eastern Germany's failure to take off after unification. Germany is still mightily overregulated. Nothing illustrates that better than its restricted shopping hours: shopping and business, with a handful of exceptions, are still barred on Sundays. The country, it seems, has not fully woken up to the ways of modern economies.

Mr Schröder's decision this week to put off his much-vaunted tax reforms because of the costs incurred by the recent floods (see article) is another worrying signal. It implies that he sees the tax cuts as a dispensable bribe to the middle class rather than an essential tool for economic stimulation. True, the chancellor's opponents do not instinctively promote liberal economics either. But three years ago Mr Schröder made much of his pro-business leanings; as an avowed Social Democratic moderniser, he was well placed, however much his loyalists would have groaned and griped, to force through radical reform. He has failed to do so. This latest bundle of ideas, worthy though many of them are, are indeed too little, and quite a lot too late.

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Letters

Aug 22nd 2002
From The Economist print edition

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America behind bars

SIR – You say that America "is a society that, statistically at least, is beginning to look a little like early Australia" ("Too many convicts", August 10th). In fact, it is more like early America. British convicts were transported, mainly into Virginia and Maryland, from 1611 until the revolution and comprised around 10% of the population there. Early Australia (ie, Sydney) was exclusively convict, under the control of a military garrison. It was the arrival of increasing numbers of free settlers that provoked hostility to the programme and ended transportation.

Historically, we know what encourages convicts to rehabilitate: they must be young, non-violent, dispersed into small communities that know what they are up to, compelled to work, remunerated and punished if they abscond or reoffend. It is the patience of the broader community that is tested, just as in colonial America or Australia.

Julie Tobias
Sydney

SIR – Two in five adult prisoners are graduates of institution-based juvenile-justice systems. Rather than rehabilitating our youth, juvenile-correctional facilities train young offenders to be better criminals. Unfortunately, resources are disproportionately channelled toward punitive-corrections policies to the exclusion of effective prevention and intervention programmes.

This under-investment in youth services comes at a high cost; it is estimated that for every youth that drops out of high school for a life of crime and drug abuse, it costs tax-payers between $1.7m-2.3m, with secure-detention facilities costing around $200 a day per youth. We now have an ideal opportunity to invest in cost-effective prevention and intervention programmes with proven track records. Model programmes in juvenile-justice reform do exist: the Missouri Division of Youth Services, for example, uses a relatively low-cost, individualised, community-based approach with recidivism rates consistently hovering around 10%, one of the lowest in the country.

Michele Byrnes
Centre on Juvenile and Criminal Justice
San Francisco

SIR – I am disappointed that you fail to explore the disconnect between crime rates and the rate of incarceration. You incorrectly say that the imprisonment rate is tied to the crime rate. In reality, America's incarceration rate increased nearly ten fold between 1973 and 2000 at a time when, according to the Census Bureau's National Crime Victimisation Survey, the crime rate was relatively flat or falling. As you point out, crime is now increasing, which should be expected during the current economic decline. Your inaccurate assumption that incarceration rates are tied to crime rates greatly underestimates the true horror of what the United States is doing to its underclass by way of imprisonment.

Joel Dyer
Longmont, Colorado

Jenin's massacre myth

SIR – You say that “Palestinians accused Israel of massacring up to 500 civilians” in Jenin (“Naught for your comfort”, August 10th). While this charge is widely attributed to Palestinians—even in Kofi Annan's UN report—we have been wholly unable to locate any direct quote from any Palestinian official making it in any media. The confusion appears to have originated when a Palestinian cabinet minister, Saeb Erekat, told CNN on April 10th of unconfirmed reports that up to 500 people had been killed throughout the West Bank in Israel's “Operation Defensive Shield”.

The next day, the *Jerusalem Post* wrote “Palestinian negotiator Saeb Erekat told CNN that Israel had massacred 500 people in the Jenin camp.” In fact, looking at the CNN transcript from April 10th, Mr Erekat neither made this claim, nor used the word “massacre”. As a publication that sets a higher standard, we urge you to set the record straight, lest one more myth take root among the countless others that fuel the conflict between Israelis and Palestinians.

Ali Abunimah
Nigel Parry
The Electronic Intifada
Chicago

Baseball Mitt

SIR – A picture of Mitt Romney bears the caption “About to catch the prize” (“The talented Mr Romney”, August 10th). An examination of his stance, the placement of his hand and the position of his glove reveals that he is not about to catch anything. Rather, he has just tossed the ball. From its size and arc of flight, I would surmise that Mr Romney is playing slow-pitch softball. Not a good omen. The way to win in Massachusetts is to play hardball.

John Wilde
Greenwood, South Carolina

One China

SIR – You refer to China and Taiwan as two states and accuse China of routinely threatening force against Taiwan (“Full of sound and fury”, August 10th). This is a misunderstanding of the consistent policy of the Chinese government on the Taiwan question, does not conform to historical facts and misleads readers. I deeply regret that, as a well-known worldwide magazine, *The Economist* should commit such mistakes. Therefore, I believe that it is necessary for me to re-elaborate Chinese government policy on the Taiwan question.

Taiwan has been an inseparable part of Chinese territory since ancient times. Most governments in the world, including the British government, recognise that the People's Republic of China is the sole legal government representing China and that Taiwan is part of China; both the mainland and Taiwan belong to one China. We are opposed to any attempt to split China in any form. Peaceful reunification of the motherland is a set policy of the Chinese government. However, the Chinese government is under no obligation to undertake any commitment to give up the use of force. Our not undertaking to give up the use of force is not directed against our compatriots in Taiwan but against the schemes of foreign forces to interfere with China's reunification and to bring about the “independence of Taiwan”.

It is true that Taiwan is a member of the WTO and the Asia-Pacific Economic Co-operation forum, and that it competes in the Asian and Olympic games, but only with the condition that Taiwan participates as a separate tariff zone, an economy or a sports organisation under the one-China principle but not as an independent state.

Gong Jianzhong
Press counsellor
Embassy of the People's
Republic of China
London

Horse power

SIR – Herman Correa-Diaz (Letters, August 10th) asks “Will [Michael] Schumacher be remembered in 400 years because he drove a racing car and won a sports competition five or more times?” In the

second century, Gaius Appuleius Diocles is recorded as having won 1,462 of the 4,257 four-horse chariot races in which he competed. In a mosaic in the imperial baths in Trier, Germany, Polydus and his lead horse, Compressor, are identified as victors. Mr Schumacher needs only to find his Juvenal.

David Crockett
Apeldoorn, The Netherlands

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Demography and the West

Half a billion Americans?

Aug 22nd 2002 | WASHINGTON, DC
From The Economist print edition

Demographic forces are pulling America and Europe apart. If the trend goes on, it will fundamentally alter America's position in the world

FORGET transatlantic rifts about trade, Iraq, Kyoto, or the International Criminal Court. These have been thoroughly ventilated. One area of difference has not got the attention it deserves: demography. It may prove the most important of all.

For 50 years, America and the nations of Western Europe have been lumped together as rich countries, sharing the same basic demographic features: stable populations, low and declining fertility, increasing numbers of old people. For much of that period, this was true. But in the 1980s, the two sides began to diverge. The effect was muted at first, because demographic change is slow. But it is also remorseless, and is now beginning to show up.

America's census in 2000 contained a shock. The population turned out to be rising faster than anyone had expected when the 1990 census was taken. There are disputes about exactly why this was (more on that shortly). What is not in doubt is that a gap is beginning to open with Europe. America's fertility rate is rising. Europe's is falling. America's immigration outstrips Europe's and its immigrant population is reproducing faster than native-born Americans. America's population will soon be getting younger. Europe's is ageing.

Unless things change substantially, these trends will accelerate over coming decades, driving the two sides of the Atlantic farther apart. By 2040, and possibly earlier, America will overtake Europe in population and will come to look remarkably (and, in many ways, worryingly) different from the Old World.

By 2040, perhaps earlier, America will overtake Europe in population

In 1950, Western Europe was exactly twice as populous as the United States: 304m against 152m. (This article uses the US Census Bureau's definition of "Europe", which includes all countries that were not communist during the cold war. The 15 countries that make up the European Union are a slightly smaller sample: they had a population of 296m in 1950.) Both sides of the Atlantic saw their populations surge during the baby boom, then grow more slowly until the mid-1980s. Even now, Europe's population remains more than 100m larger than America's.

In the 1980s, however, something curious began to happen. American fertility rates—the average number of children a woman can expect to bear in her lifetime—suddenly began to reverse their decline. Between 1960 and 1985, the American fertility rate had fallen faster than Europe's, to 1.8, slightly below

European levels and far below the “replacement level” of 2.1 (the rate required to keep the population steady). By the 1990s American fertility had rebounded, rising back to just below the 2.1 mark.

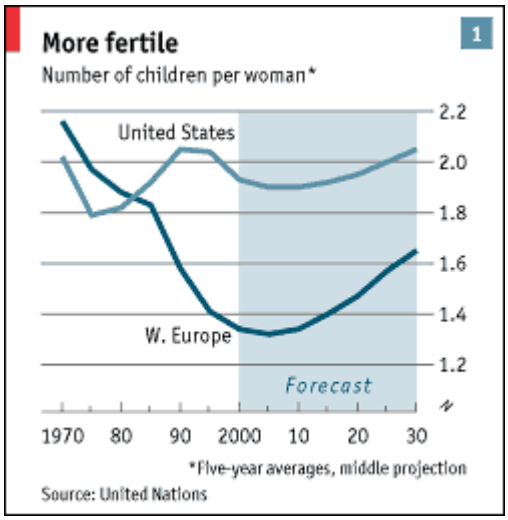
Nobody quite knows why. Some of the recovery was the result of higher-than-average fertility among immigrants. But not all of it: fertility rose among native-born whites and blacks as well. Perhaps the most plausible, if unprovable, explanation is that higher fertility was the product of the economic boom of the 1990s combined with what one might call “social confidence”: America was a good country to bring more children into.

America is not unique: a few north-European countries, like Norway, have followed a similar trajectory. But it is highly unusual. Nearly every country in the world has seen its fertility rate fall recently and, by and large, the richer the country, the greater the fall. “America”, says Hania Zlotnik of the United Nations Population Division, “is the world's great demographic outlier.”

America is the world's great demographic outlier

Meanwhile, Europe's fertility continues to fall. Having been just below 1.9 in the mid-1980s, the rate is now less than 1.4 and it is projected to continue declining for at least another ten years. In some countries—Spain, Italy and Greece—the fertility rate has fallen to between 1.1 and 1.3.

It is fair to say that these numbers probably exaggerate the long-term demographic difference between the two sides. Remember that between 1970 and 1985 American fertility rates were slightly lower than Europe's. What seems to have happened then was not that Americans were having fewer children overall, but that a generation of women was postponing motherhood. That depressed America's birth rate in 1970-85, shifted a surge of births by half a generation, and produced an unusually high rate in the 1990s. That same population shift is happening in parts of Europe now, especially in those Mediterranean countries with the lowest fertility rates. There too, many women are merely postponing child-bearing. Later, after about 2010, when they have their children, Europe's fertility rate will nudge back up (see chart 1).



But what is striking about the American rate is not that it rose and fell, but that it rose so much—to within a whisker of the replacement level. And what is striking about the European rate is that it fell so far, to a much lower level than America's. That is also a reason for thinking it may not recover as strongly as America's did.

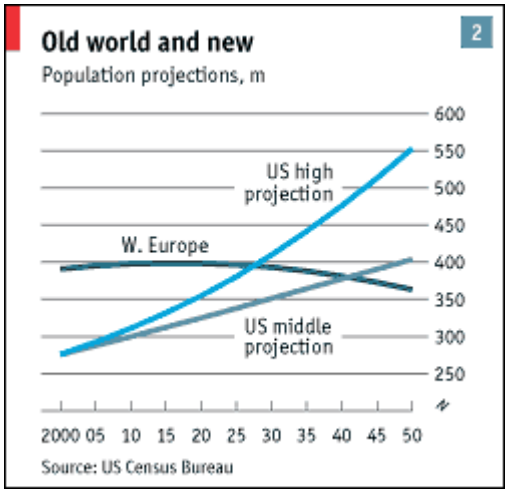
The UN reckons that the differences in fertility between America and Europe will continue over the next few decades. America's high rate is expected to remain relatively stable. Europe's should recover a bit—but it will not close the gap. The result of these differences, already evident in the census of 2000, will then become starker.

Absolute numbers

America's population should have been 275m in 2000. At least, that is what the central projection of the 1990 census predicted. The 2000 census showed it was actually 281m, higher even than the “high series” projection from 1990. Some of this may have been caused by things other than population change: improvements in counting, for instance. But not all. The new census showed that immigration was higher than expected, and that the birth rate of native-born Americans was up too.

Those higher fertility rates will have a bigger impact as time goes on. By 2040, using the new census's “middle series” projection, America's population will overtake Europe's. This forecast has already proved too low. On the “high-series projection”, the crossing point occurs before 2030 (see chart 2). Admittedly, this projection is based on high assumptions about fertility rates—over 2.5 in 2025-50. But if this proves correct, Europe's population in 2050 would be 360m and falling, America's would be over 550m and rising. Half a billion people: in other words, America would be twice the size it is now. Europe would be smaller. Obviously,

straight-line projections over 50 years need to be taken with plenty of salt. All the same, the numbers are startling.



European commissioners are fond of boasting that the European Union (EU) is the largest market in the world. They claim an equal status with the United States in trade negotiations as a result. Some also think that, because of this parity, the euro will one day become an international reserve currency to rival the dollar.

The balance of global economic power would be tilted in fundamental ways

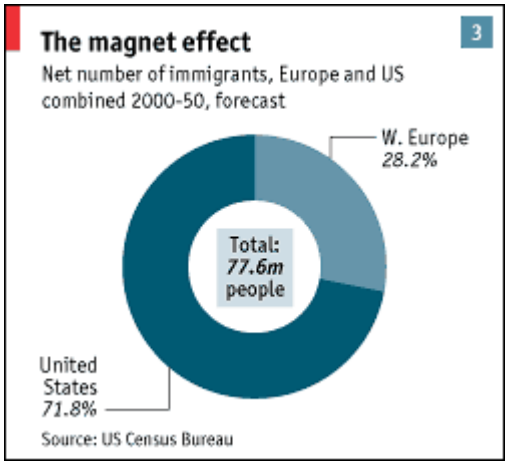
But assume, for a minute, that Americans remain, as they are now, about one-third richer per head than Europeans. The high-series projection implies that America's economy in 2050 would still be more than twice the size of Europe's—and something like that preponderance would still be there even if you assume that by then much of Central and Eastern Europe will have joined the EU. The balance of global economic power would be tilted in fundamental ways. With 400m-550m rich consumers, the American market would surely be even more important to foreign companies than it is today. And if so, American business practices—however they emerge from the current malaise—could become yet more dominant.

And still they come

Part of the rise in the population has been driven by higher fertility. The rest comes from immigration. In the past decade, America has taken in over 11m immigrants. That compares with 6m in the 1970s and 7m in the 1980s. The real number of new immigrants may be even higher, since these figures may not account for all the estimated 8m-9m people who have slipped illegally into the country. Some may return home. Others may be thrown out. But those that remain contribute to the growing population both directly and indirectly (that is, through their children). The fertility rate for non-hispanic whites is just over 1.8, for blacks 2.1. For Latinos, it is nearly 3.0—higher than in many developing countries. From the point of view of the overall population, therefore, higher immigration counts twice over.

That is a reason why America's total population will continue to rise, though perhaps not as much as the highest estimates suggest. Many of the new migrants come from Mexico. If Mexico's own demographic pattern, with fast-falling fertility, is anything to go by, the fertility rate for American Latinos is also bound to fall, though it will still be quite high.

Europe has had an immigration boom as well, of course. Indeed, in 1985-95, there were slightly more immigrants going into Europe than into America (though since Europe's population is larger, America's rate was higher). But more recently, the European numbers have fallen—presumably reflecting increased barriers to entry—and overall, since 1950, Europe has taken in far fewer people. Most demographers forecast that immigration will be much lower in Europe than in America during the next few decades (see chart 3).

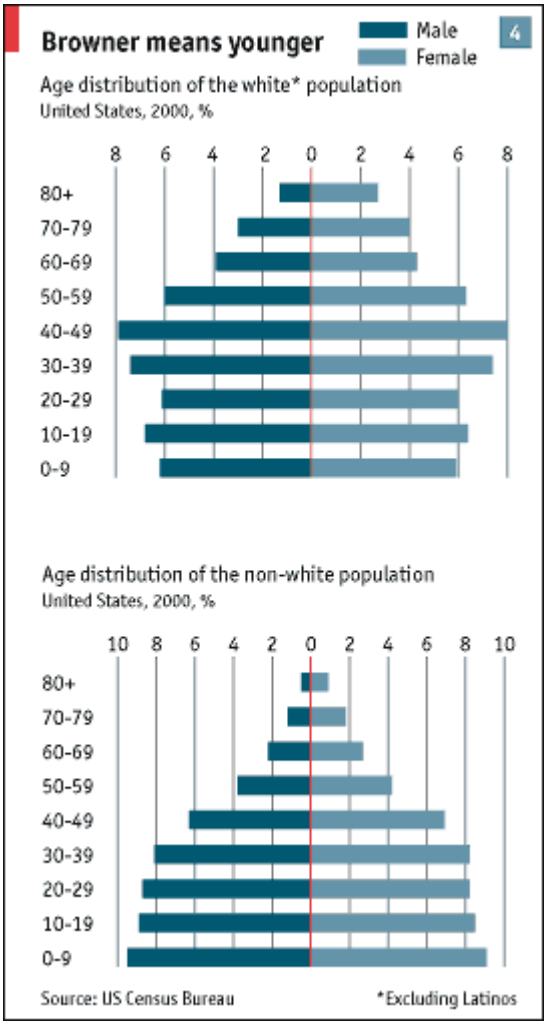


The difference in immigration not only increases America's population compared with Europe's, it also makes it look increasingly different. Compare the different shapes of chart 4, which maps the age distribution of America's whites, on the left, and other groups, on the right. Whites form a pear shape: they are preponderant among adults. This is also the shape of Europe's population. Blacks and browns form a pyramid: children account for most of the population. Even now, in the parts of America with the highest immigration, such as Los Angeles and Houston, Latinos account for half of all children under 14. This is the characteristic shape of developing countries. As the bulge of Latinos enters peak child-bearing age in a decade or two, the Latino share of America's population will soar.

That could have an impact both on economics and on geopolitics. The economic impact is clear enough. Kenneth

Prewitt, the former head of the US Census Bureau, argues that “in the struggle to find workers to support growing economies, nations that are hospitable to immigrants will have an advantage.” Immigrants go where there are friends and family to welcome them and help them get jobs. Where will they find a more hospitable welcome—Europe or America?

The geopolitical impact is fuzzier, but still powerful. At the moment, America's political connections and shared values with Europe are still strong, albeit fraying. But over time, America's ties of family and culture will multiply and strengthen with the main sources of its immigration—Latin America chiefly, but also East and South Asia. As this happens, it is probable that it will also pull American attention further away from Europe.



The young world and the old

Higher fertility rates and immigration produce not only a larger population but a society that is younger, more mixed ethnically and, on balance, more dynamic. The simplest expression of this is median age (by definition, half of the population is older than the median age, and half younger). According to Bill Frey, a demographer at the University of Michigan, the median age in America in 2050 will be 36.2. In Europe it will be 52.7. That is a stunning difference, accounted for almost entirely by the dramatic ageing of the European population. At the moment, the median age is 35.5 in America and 37.7 in Europe. In other words, the difference in the median age is likely to rise from two to 17 years by 2050.

Behind this change lie demographic patterns with big policy implications. The percentage of children in the population is falling as populations age. But in America it is falling more slowly than elsewhere. In 1985, America and Europe had more or less the same proportion of the population under 14 years of age: around 20%. By 2020, the proportion of children in Europe will have slumped to 13.7%. In America it will still be 18.6%—not only higher than in Europe but higher than in China and Japan, as well.

From a fiscal point of view, more children are not necessarily a blessing: their education is a burden on the public finances. Because America has relatively more children than Europe, its “dependency ratio”, or the number of children and elderly people for each working-age person, does not stay low. It is slightly higher than in Europe now—51% against 47%—and will stay just above European levels as the ratio rises in both places until about 2035 (see top panel of chart 5). But note the difference: a higher proportion of Europe's “dependency costs” comes from the old. The number of people over 65 will be equivalent to 60% of the working-age population in Europe in 2050, compared with only 40% in America. There, most of the overall burden will come from the cost of educating children (chart 5, bottom panel).

You see the significance after 2035. In America, the dependency ratio will start to fall as the bulge of children turns into a bulge of adults. But in Europe there will be no such change, and the ratio will continue to rise. This is where the implications for public policy become large.

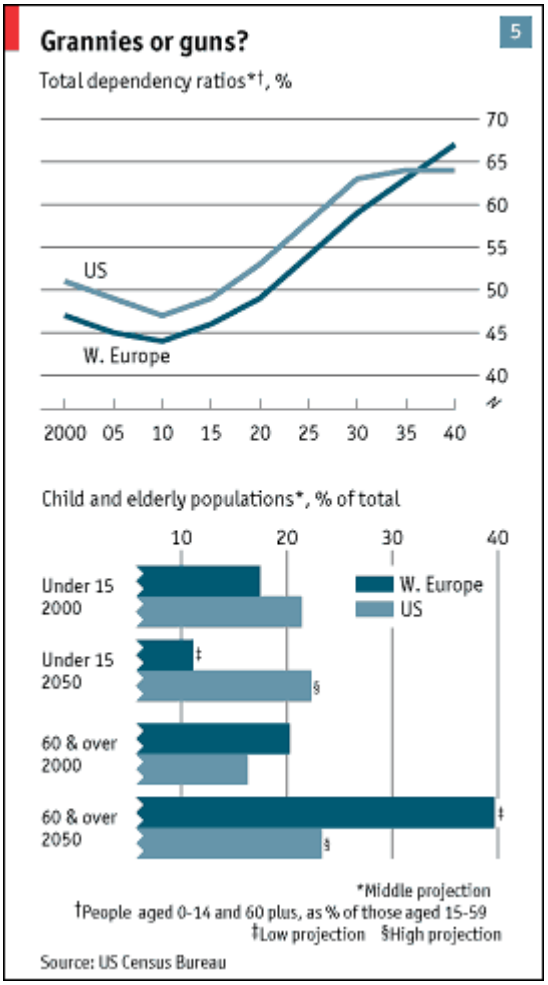
Both Europe and America face fiscal problems in providing

pensions and health care as their baby-boomers retire. On some estimates, by 2050, government debt could be equivalent to almost 100% of national income in America, 150% in the EU as a whole, and over 250% in Germany and France. So while the burden is growing on both sides of the Atlantic, it is much heavier in Europe.

That is a problem in its own right, and a source of another long-term difficulty in the transatlantic relationship. Since the end of the cold war, Europe and America have made different calculations about where to spend public money. America has put more into defence; Europe has spent more on social programmes.

The result is a familiar military imbalance. America spends about twice as much on defence as the entire European Union ($295 billion in 2000, or 3% of GDP, compared with the EU's $153 billion), thus maintaining its preponderant military might. Europeans intermittently promise to spend more in order to narrow the military gap, recognising the dangers to the NATO alliance if they fail to pull their weight, but population trends will sap their determination.

The long-term logic of demography seems likely to entrench America's power and to widen existing transatlantic rifts



If Europeans are unwilling to spend what is needed to be full military partners of America now, when 65-year-olds amount to 30% of the working-age population, they will be even less likely to do more in 2050, when the proportion of old people will have doubled. In short, the long-term logic of demography seems likely to entrench America's power and to widen existing transatlantic rifts.

Perhaps none of this is altogether surprising. The contrast between youthful, exuberant, multi-coloured America and ageing, decrepit, inward-looking Europe goes back almost to the foundation of the United States. But demography is making this picture even more true, with long-term consequences for America's economic and military might and quite possibly for the focus of its foreign policy.

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The jobs market

The young and the rested

Aug 22nd 2002 | DEERWOOD, MINNESOTA
From The Economist print edition

One part of the American workforce is hurting badly—teenagers

Alamy

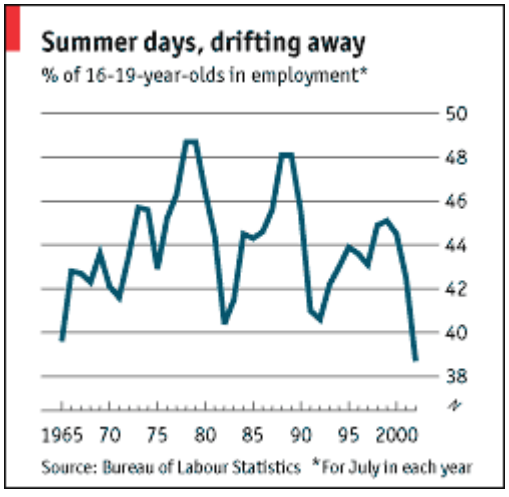
THROUGHOUT its 104-year history, Ruttger's Bay Lake Lodge has employed a lot of teenagers. Each summer, around two-thirds of the 325 staff at the remote holiday resort are high-school and college students. The end of August sparks a crisis: the students go back to school, leaving Ruttger's, which closes in November, scrambling to find dishwashers, waiters and housekeepers.

This year, the resort's managers are less frantic than usual. Before Ruttger's opened in April, it got an uncharacteristically high number of applications from adults, even though many of its jobs pay below $7 an hour. Ruttger's is thus employing around 25% fewer teenagers than normal, even though they also applied in droves.

American teenagers are an atypically industrious lot. In most developed countries, teenagers work only if the family needs income. Yet the American teens most likely to work have historically been white, attended college, lived outside a big city, and (perhaps most surprisingly of all) had a family income above $40,000 a year. By contrast, poor inner-city kids have been much less likely to hold jobs.

A new report by the Centre for Labour Market Studies at Northeastern University in Boston points out that this has been the toughest summer-job market for teenagers in 37 years (see chart). The problem extends beyond seasonal work. Many starter jobs once filled by America's youth—at cash registers, griddles, dishwashing stations and on newspaper routes—have now been nabbed by adults.

The unemployment rate for people aged 16-19 (and seeking work) was 17.7% in July. That compares with 14.8% in the same month last year and 13.4% in 2000. More tellingly, if you include those who have given up looking for work, the employment-to-population (EP) ratio for teenagers has dropped to 38.7% this summer, compared with 44.5% two years ago. Andrew Sum, a professor at Northeastern, sees a “depression” in the teen-labour market.



Such language is a little dramatic. The employment situation varies by state, and even within states. Richard Judy, an economist, points out that in regions such as central Illinois and the Tampa Bay area in Florida, there are too few people to fill unskilled jobs. Others think that teenagers are simply concentrating on different things: a new report by the Bureau of Labour Statistics says more teens are studying during the summer than in past years.

That might perhaps help to explain the changing EP ratio for teenagers, but it does not explain rising unemployment among those teens who want to work. A lot of teens looking for jobs are not finding them. How much is this due to the current economic downturn and how much to deeper structural changes in the workforce?

The experience of teenagers hints at something of a crunch in service jobs at the bottom of the employment ladder. Some labour-market experts argue that lay-offs, or fear of them, have persuaded adults to take jobs which were once filled by college graduates, pushing some of the latter back down into jobs once held by high-school graduates and dropouts.

Minnesota, for instance, actually has one of the country's highest rates of teen employment (alongside Iowa, Nebraska, and Wisconsin). But job vacancies in Minnesota in the second quarter of this year were 41% below the same period last year. That prompted many adults to look for jobs once held by less skilled workers.

Another factor has been Wall Street. The drop in personal savings caused by the stockmarket plunge has prompted many older Americans either to postpone retirement or re-enter the job market. According to the AARP (formerly known as the American Association of Retired Persons), there are 8% more Americans above the age of 55 working now than there were a year ago. Many are in skilled fields such as consulting; but plenty are also doing odd jobs part-time. However, there are also longer-term forces at work:

•**Immigration.** The surge of new immigrants over the past decade has created a huge new labour pool, mainly along the east and west coasts and in big cities like Chicago. Many have little education: about a third lack a high-school diploma, three times the rate of native-born Americans. Many speak little English, and thus qualify only for the unskilled, low-wage jobs that teens used to pick up.

•**Welfare reform.** In 1996, Congress passed a law requiring welfare recipients to work or get job training in exchange for benefits. The number of people on welfare has dropped from 14m in 1994 to 5m today. Many who went from welfare to work were unskilled and took entry-level jobs.

•**Demography**. There is an unusually large number of teenagers around, thanks to a “baby-boom echo”—a generation born to the original boomers between 1977 and 1994. Tom Dilworth, a labour expert with the Employment Policies Institute in Washington, DC, points out that around 35m echoers had turned 16 by last year (“eligible worker” age). They now account for around a fifth of the total workforce. The EPI estimates that by 2010, nearly 74m members of the echo generation will be 16 or over, accounting for about 37% of eligible workers. An ever-increasing number of these young workers are Latinos.

Smells like teen spirit

A teenager having trouble finding a job might seem a harmless form of preparation for the rigours of the “proper” job market; after all, few are their family's primary wage earners. But there is now quite a lot of research arguing that such experiences can have serious consequences. A 2001 study for the EPI by Thomas Mroz and Timothy Savage from the University of North Carolina at Chapel Hill linked teen joblessness to lower lifetime earnings, future unemployment and a variety of other social ills.

Inevitably, there have been calls for special help. Northeastern's Mr Sum, for instance, wants a federal jobs-stimulus programme for young Americans. Others argue that some proposed laws are actually damaging chances for teens. Mr Dilworth at the EPI points to a health-insurance bill proposed by Senator Edward Kennedy, which he says would make it more difficult for employers to hire teens.

Naturally, some things may improve if the economy does. But some things have probably already changed forever. These days, Mr Judy notes, “paper delivery by kids on bikes is something out of Norman Rockwell”. But perhaps it was inevitable that adults would take over the newspaper routes. How many teens want to get up at 5am anyway?

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Coffee politics

Lovin' cups

Aug 22nd 2002 | BERKELEY, CALIFORNIA
From The Economist print edition

Coffee, and justice, for all

Get article background

BERKELEY is the birthplace of People's Park and of American coffee snobbery. So it seems fitting that the city's peace-loving, caffeine-wired citizens are embracing a way to combine their politics with their drug of choice (or one of them, anyway). “Sec C”—short for Socially and/or Environmentally Consciously Cultivated Coffee (and pronounced “sexy”, of course)—is a proposal to limit the kinds of coffee sold in Berkeley, and is up for discussion on the November ballot.

America's speciality-coffee revolution kicked off in the late 1960s in Berkeley, where Alfred Peet, a Dutch immigrant and founder of Peet's Coffee, trained the men who would later start Starbucks in Seattle. Nowadays cafés line most of Berkeley's main streets, and people discuss coffee blends with the passion of wine-tasters. Yet no one can agree on Sec C.

The initiative is the hobby-horse of Rick Young, a lawyer fresh from the University of California at Berkeley's law school. After successfully persuading the owner of the law-school café to switch to more politically-correct coffee, Mr Young decided to take the matter to the streets. Having collected over 3,000 signatures, he is now in a position to appeal to the university town's 80,000-odd voters.

If passed, only coffee beans that are certified as organic, fair-trade or shade-grown could be sold. To brew regular Joe would be an offence punishable by up to six months in jail and a $100 fine. “People should pay a price for their coffee that reflects the larger costs, like polluting water and cutting trees,” Mr Young says. “Prices now are artificially low because they don't take into account all the externalities.”

Basic coffee is trading at record low prices, averaging less than 50 cents per lb on the New York Coffee, Sugar, and Cocoa Exchange. Fair-trade coffees, by contrast, are selling at around $1.25 per lb for regular and around $1.40 per lb for certified organic beans. To receive fair-trade certification, coffee growers must be included in the International Fair Trade Coffee Register, which guarantees a “fair-trade price” and credit against future sales. Organic coffee is grown without pesticides, herbicides and fungicides, while “shade-grown” means grown under a canopy of trees, thereby protecting wildlife habitats.

Mr Young hopes to win voters on the strength of his environmental argument. Migratory birds which fly south to Central America each year, he points out, live in forests that are increasingly threatened by large-scale coffee growers, who cut down trees to replace shade-grown coffee with heartier new varieties that thrive in the open air. Moreover, the birds often return carrying pesticides, pollutants and fertilisers from non-organic plantations, potentially wreaking ecological havoc up north.

The denizens of Berkeley are used to paying a bit more for quality Java, and the idea of politically-correct coffee is not new. TransFair USA, the only organisation responsible for fair-trade certification in America, is based in neighbouring Oakland; and in 1999, Berkeley's mayor, Shirley Dean, sponsored a regulation stipulating that all coffee purchased by the city government must be fair-trade. Recently, though, she has expressed doubts about Mr Young's initiative, noting the enforcement difficulties if it is passed.

Coffee sellers, too, have mixed feelings. “He wants to make this punishable with six months in prison. I resent paying taxes for this kind of enforcement,” says Ayal Amzel, owner of Yali's Café, near the university. “We have 13 people working here. We will be hurt. It will take a toll.”

Despite the reaction of shopkeepers such as Mr Amzel (not to mention hate e-mails from across the country), Mr Young seems to have struck something of a chord. A subcommittee of the House

International Relations Committee held discussions on the coffee crisis last month. Californian politicians have also weighed in. Congressman Sam Farr has recommended that individuals and institutional consumers purchase “sustainable” or fair-trade coffees. Pete Stark, another Democratic member of the House, has introduced a resolution that all branches of the federal government purchase only certified fair-trade coffees.

The Berkeley initiative may not pass this year. Nevertheless, the search has begun for what Thanksgiving Coffee of California, a leader in the gourmet coffee industry, refers to as “Not just a cup, but a just cup.”

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The Republicans and Iraq

A debate begins

Aug 22nd 2002 | WASHINGTON, DC
From The Economist print edition

But it will remain a phoney war until the White House becomes involved

AP

Rice in the front line

THE Republicans used to boast that they wanted a clear result in Iraq—regime change—but the Democrats only wanted a debate about it. Well, a debate of sorts has begun, and it is taking place largely on the Republican side.

It began on July 31st with hearings in the Senate Foreign Relations Committee. These provided a serious look at the issues. What weapons does Saddam Hussein have? What are his intentions? How solid is the opposition? Unfortunately, the testimony came from outside the administration—from think-tankers, defence experts and Iraqi scholars. These people all know a great deal about the technicalities, but they have no authority to take decisions.

The same point could be made about innumerable Pentagon leaks of possible war plans, which have filled newspapers this summer. These have revealed some sense of the scale of operations—anything up to 100,000 troops—and a sense of the caution of the joint chiefs of staff. Tommy Franks, the head of Central Command, this week said he is drawing up plans to give the president “credible options”. But that is all they are—options.

So when Brent Scowcroft, George Bush senior's national-security chief, wrote an article for the *Wall Street Journal* on August 15th called “Don't Attack Saddam”, it was the first sign of serious political debate. Mr Scowcroft argued that there was no real evidence tying the Iraqi dictator to terrorism. An attempt to overthrow him could destabilise the region and distract America from its real target, al-Qaeda.

Mr Scowcroft's broadside had echoes among mainstream Republican internationalists. A former secretary of state in the first Bush administration, Lawrence Eagleburger, concurred that Iraq was not necessarily public enemy number one. Senator Dick Lugar of Indiana chimed in: “Unless we plan this carefully, we're likely to destabilise other countries in the Middle East.” Chuck Hagel of Nebraska admitted that “Iraq is a threat”, but said that America has other interests: “Afghanistan...the Israeli-Palestinian issue...India-Pakistan”.

They stopped short of opposing an invasion outright—arguing it should be done carefully. Dick Armey, a congressman from Texas, was blunter. Mr Hussein, he said, has not shown “sufficient provocation” and “we Americans do not make unprovoked attacks.” Since Mr Armey is technically number two in the Republican Party's congressional hierarchy (though he is retiring this year), this looked like a serious rift in party ranks.

Certainly the debate so far has shown a few things. It reflects some differences within the administration. But the debate among Mr Bush's people seems less about whether to remove Mr Hussein than about the importance of what happens next. It is mainly between those (like Paul Wolfowitz, the number two at Defence) who just want to see the back of him and those (like Colin Powell) who want to focus discussion on how Iraq ought to be governed after Mr Hussein's removal, and whether to postpone an attack until there is some semblance of a government-in-readiness.

The debate also reflects a wider difference within the Republican Party. “Realists” want to get rid of Mr Hussein before he acquires nuclear weapons and destabilises the region. More ideological Reaganites want to get rid of Mr Hussein in order to destabilise the region—that is, to install a more democratic

government in Iraq as a first step to changing autocratic regimes throughout the Middle East.

Reflecting such differences is one thing; but the debate so far hardly amounts to a serious split in the current Republican ranks. The most vocal dissenters are retired officials; and even their views need to be balanced, because some grand old internationalists support Mr Bush.

Writing in the *Washington Post*, Henry Kissinger, who probably carries more weight with the current administration than Mr Scowcroft, supported attacking Iraq. The erstwhile secretary of state admitted that few allies would support such an assault (something the *New York Times* seized upon with relish). But he disagreed with Mr Scowcroft's argument that it should be done only after calming down the Israeli-Palestinian conflict.

Another reason why the current debate feels like a phoney war is that it has not been partisan. With a couple of exceptions, everyone involved has been Republican. Few Democrats, with mid-term elections ten weeks away, want to distract themselves from domestic issues to engage in a national-security debate.

Lastly, the debate has hardly involved the White House. The closest it has got to overt participation was a much ballyhooed interview that Condoleezza Rice gave to the BBC, in which Mr Bush's national-security adviser ramped up the rhetoric by talking about “a very powerful moral case for regime change.” But the administration has not been out in the public sphere much: it has neither responded to criticism nor explained itself in detail.

There are good reasons for this: an unwillingness to signal war plans; the risk of raising expectations too early. But other excuses seem peculiar—notably the idea that “we can't engage in a debate until after we've taken a decision.” One result is that few of Mr Bush's critics, particularly outside America, have changed their minds. As Mr Kissinger admitted, “the president has made the intellectual case, he has not yet created the political framework.”

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American politics made easy

Aug 22nd 2002
From The Economist print edition

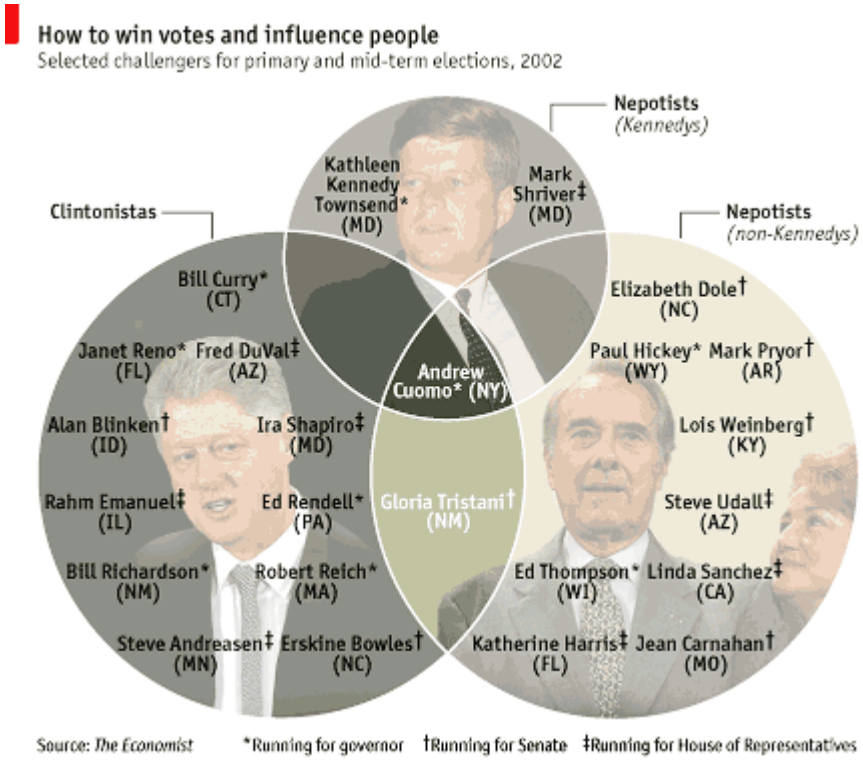
Who would want to run for election in America? Well, the incumbents have to, unless they want to start looking for another job. But that still leaves the wannabees: challengers who are prepared to devote money and time to races they will probably lose.What sort of masochists are they? As a courtesy to its American readers, *The Economist* presents this visual aid (see below). For simplicity's sake (not to mention our reluctance to do research), all the candidates divide neatly into three categories:

•Clintonistas. Now that they have paid off their legal bills, most of Bill Clinton's cabinet and a slither of spin doctors seem convinced that if Hillary can do it, so can they.

•Kennedys. If you are a Kennedy who does not happen to be on trial for anything, you are expected to run, even if you are not called Kennedy. Kathleen Kennedy Townsend slyly uses feminism to get the brand across; her cousin, Mark Shriver, sadly cannot.

•Other nepotists. The Udalls of Arizona, the Pryors of Arkansas and the Hickeys of Wyoming are following the dynastic route. Elizabeth Dole and Jean Carnahan are copying their hubbies. Linda Sanchez wants the same job as her sister, Ed Thompson the same as his brother once held. Lois Weinberg is the daughter of a governor, Gloria Tristani the granddaughter of a senator (and a Clinton appointee to the FCC). The Bushes are focusing on defending Jeb, though Katherine Harris counts as an honorary family member.

And the perfect challenger? Andrew Cuomo, son of Governor Mario Cuomo, husband to a Kennedy and Mr Clinton's housing secretary—and on course to get clobbered either in the Democratic primary or by the incumbent, George Pataki. That's the spirit, my boy.



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Environmental disasters

The dead zone

Aug 22nd 2002 | ST PAUL, MINNESOTA, AND TERREBONNE PARISH, LOUISIANA
From The Economist print edition

Aquatic life in the Gulf of Mexico is dying—and it is the mid-west's fault

IN 1973, Windell Curole was shrimping in the Gulf of Mexico with his father near the mouth of the Atchafalaya River, a distributary of the Mississippi. The river meets the salt water of the Gulf here to produce what has historically been the best shrimping grounds in the nation. After trawling for three hours, they hauled in their nets. “We came up with nothing,” Mr Curole remembers.

What the Curoles had stumbled on is now known as the dead zone, a great swathe of Gulf waters that is completely devoid of life to about ten feet below the water's surface. Each spring, when algae bloom, they are poisoned by nitrogen and phosphorous that has been washed down by the Mississippi. The algae sink to the bottom where they are decomposed by bacteria. The bacteria use up the oxygen around them. Shrimp and fish and other mobile forms of aquatic life swim off in search of oxygen; the rest dies. The condition is called hypoxia.

The dead zone is yet another setback for Louisiana's beleaguered shrimpers and fishermen. Many have little understanding of the dead zone, beyond the empty nets they are pulling up, and having to travel further to find shrimp and fish. This summer, the dead zone expanded to some 8,500 square miles (22,000 square kilometres), an area the size of New Jersey.

Most scientists agree that run-off from mid-western farms is the main cause. Nitrogen fertiliser is relatively cheap, and farmers apply it liberally. The excess nitrogen runs off into the Mississippi. According to the Environmental Protection Agency, run-off accounts for 90% of the nitrates entering the Gulf: it also reckons that 56% of those nitrates flow into the Mississippi above the Ohio River.

Many farmers in the mid-west are aware of the problems they are causing. But they say they are trapped in a system which encourages the production of corn to the exclusion of other crops, which need less fertiliser. John Conzemius, a 69-year-old farmer, tends 160 acres of crops, including corn, in southern Minnesota, 12 miles from the Mississippi. Mr Conzemius says he would rather plant alfalfa, which can soak up nitrogen much better than corn. But no federal subsidies exist for alfalfa, so he plants corn instead.

Yet more farm-subsidies hardly seem a satisfactory answer. Another obvious solution—using less nitrogen—is opposed by farmers, because it would decrease yields. Some scientists think that the nitrogen could be reduced by planting grasses to absorb the stuff before it leaves the farm. Another lot of proposed solutions involve tampering with the Mississippi itself.

The government has long attempted to control the river by means of a vast system of levees. Nancy Rabalais of the Louisiana University Marine Consortium estimates that more diversions could reduce nutrient levels in the Mississippi by 5%. Unfortunately, such tinkering has dire environmental consequences of its own, such as increasing the magnitude of flooding, degrading wetlands and destroying wildlife habitats which might well offset any potential benefits to the dead zone.

Regulations are another option. Under the Clinton administration, a White House task-force drafted an action plan meant to reduce the size of the dead zone by 30% by 2015. The task-force, whose plan sets targets for reducing nitrogen run-off and also for restoring wetlands, continues to work under the Bush

administration. For now, the plan remains voluntary. But if the dead zone continues to grow, the government could choose to make it law.

Shrimpers and farmers alike hope to come up with a solution themselves. To that end, a group called the Mississippi River Basin Alliance, along with the Corn Growers Association, brought shrimpers and fishermen together for a series of meetings in Louisiana and Minnesota in 1999. Shrimpers visited farms and farmers visited shrimp boats. “The farmers and the fishermen found out that their lives are parallel,” says the alliance's director, Tim Sullivan. Their professions are equally disaster-prone and at the mercy of similar global economic forces. Perhaps that mutual understanding will help bring life back to the dead zone.

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Lexington

Behold the Rapture

Aug 22nd 2002
From The Economist print edition

Millenarianism is becoming a force on the right in American politics

THERE used to be bumper stickers in north Florida warning, “In case of Rapture, this car will be driverless.” The Rapture is an apocalyptic event: at some point, Christ will swoop to earth and beam all true believers up to heaven. People will vanish, as the first book of Corinthians has it, in the twinkling of an eye, leaving everything else behind—the clothes they are wearing, their wedding rings, false teeth—and, of course, unbelievers. So if a car is being driven by a born-again Christian, it will careen off the road and crash into something. You have been warned.

To many people, particularly Europeans, the Rapture comes from the UFO-watching, conspiracy-obsessed fringes of American life, where “X-Files” enthusiasts meet the Montana Freemen to stockpile supplies in caves. Apart from marvelling at the varieties of religious experience, one's natural reaction to it is a Gallic shrug. Such things hardly merit political attention.

Not this year. Millenarianism—the belief in the thousand-year reign of King Jesus—is starting to spill out over its narrow banks and is flooding towards the mainstream. Conservative radio stations across the sunbelt have been full of this stuff since September 11th. But the best evidence comes from the phenomenon called the “Left Behind” series—a bestselling sequence of novels, whose sales have soared in the past year, that dramatise Americans' strange obsession with the end of the world.

The first book of the series (sales so far: 7m) opens under a slight cloud. Millions vanish overnight and Antichrist becomes secretary-general of the United Nations. From then on, it's all downhill. Antichrist, formerly the president of Romania for some reason, fools almost everyone “left behind” except a plucky band which includes, to Lexington's delight, a political reporter for an international news weekly. Antichrist engineers a peace treaty with Israel, institutes a world currency, rebuilds the Temple of Solomon, moves the UN to Iraq (don't ask) and persuades all nations to disarm. This is just asking for trouble. Volume five, “Apollyon” (3.1m sold), unleashes a plague of locusts with human heads and metal wings. Volume eight, “The Mark” (3m sold), has people queuing up to let Antichrist's world government implant micro-chips in their right hands—the mark of the beast. In the latest instalment, “The Remnant” (first print run: 2.75m), half of mankind has been killed or is living underground, the polar icecaps melt and the seas turn to blood. “Armageddon” is due next spring.

Amongst the millenarian mayhem, “Left Behind” has a not-very-hidden political agenda. It is no accident, for example, that the poor old UN is Antichrist's chosen vehicle. International agencies and supra-national currencies are works of the devil. The kings of the earth “shall give their power and strength unto the beast” (Revelation 17:13). The whore of Babylon sits upon “seven mountains” (Revelation 17:9). Rome has seven hills. The Treaty of Rome is the European Union's founding charter. You can see where the authors are going with this.

The Book of Revelation is the source for the whole series. It was written soon after the fall of Jerusalem in 70AD and looks forward to a time when Jews will return to their homeland. In other words, to some Christians, the establishment of the state of Israel is intimately bound up with the Second Coming and the end of the world. The City of God is impossible without the state of Israel. This is a big reason why evangelical Christians are among Israel's most vociferous supporters in America.

If you combine these views with the spread of nuclear weapons—ie, things which actually could destroy

the world—and the emergence of mega-terrorists bent on acquiring them, then it is not hard to imagine how the daily news can begin to look like front-line dispatches from the first stages of the end of all things. According to a poll by *Time* magazine, 59% of Americans think the Book of Revelation will come true. Almost a quarter believe the Bible predicted the attacks of September 11th.

This makes the “Left Behind” phenomenon fundamentally different from most millenarian cults. They tend to be marginal and isolated: David Koresh, who led his Branch Davidians into a fiery and fatal confrontation with the FBI, was a characteristic example. Readers of the “Left Behind” series are neither. The two most recent instalments both topped the bestseller lists. More than 40m copies have been sold in all.

Most of the series' readers surely voted for Mr Bush. Around the country, they provide foot soldiers for the Republican Party: they ring doorbells, stick envelopes and support their town's conservative radio station. They are the president's people. When Mr Bush talks about “the axis of evil”, they take his phrase literally—and he knows it.

A date for your diary

Still, if the end of the world is nigh, policy of any kind seems rather pointless. Why bother? Walter Russell Mead of the Council on Foreign Relations explains why. Some views, he argues, are more dangerous to ignore than to contain. By talking in terms of the struggle of good against evil, Mr Bush is assuring millions of Americans that he is serious about defending them against terror; that he can be trusted to fight the good fight.

Foreign-policy sophisticates may despair at the unsubtlety of the president's rhetoric. They may despair even more at the beliefs of the end-of-the-worlders (many of whom would consign Mr Mead and the Council on Foreign Relations to the bottomless pit, alongside the Trilateral Commission and the European Union). But the critics are missing the wider—and real—danger. As McCarthyism showed, the demons of zealotry, once unleashed, can be devastating. Any American government—particularly a Republican one—thought to be failing in a war against terrorism could face forces far uglier than unsubtlety. To Mr Bush and his party, that may be a more serious worry than mere carping from abroad about lack of sophistication.

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Corruption in Latin America

Waiting for the fat man to sing

Aug 22nd 2002
From The Economist print edition

AP

Parliamentary immunity and American support have often let graft go unchecked. A case in Nicaragua suggests that may be changing

Get article background

IT TOOK a revolution in 1979 to topple Nicaragua's Somoza dynasty of dictators, and then a decade of war before democracy was established. Now Nicaragua is in the throes of a less violent but equally momentous upheaval. At issue is the corruption that has oiled the political system no matter who ruled the country. Nicaragua's attorney-general has accused Arnoldo Aleman, the country's former president, and 13 associates, of looting $96.7m before he left office earlier this year.

Whether or not Mr Aleman, now president of Nicaragua's National Assembly, faces trial will be a pointer to the outcome of the fight against corruption in Latin America as a whole. For although other scams in the region have involved more money, Nicaragua vies with Haiti as Latin America's poorest country, and depends on foreign aid. That makes the looting of its treasury especially repugnant. The missing funds are equal to 4% of GDP—or the whole health budget for a year.

A second reason why the case matters is that Mr Aleman, who took office in 1997, was a protégé of the United States in its 20-year battle against the left-wing Sandinists. From the Somozas to Peru's Alberto Fujimori and Argentina's Carlos Menem, the United States has had a habit of backing conservative strongmen in Latin America while turning a blind eye to allegations of their corruption. Now that policy may at last be changing.

Enrique Bolaños, Nicaragua's new president, seems determined to prosecute the case. That is a surprise. A colourless former businessman, he was Mr Aleman's vice-president and longtime friend. He was elected for the right-wing Liberal Constitutionalist Party, which Mr Aleman still heads. But Mr Bolaños made corruption an issue in his election campaign, and seems to make up in honesty what he lacks in charisma.

“Arnoldo, I never dreamed you would betray your people like this,” he told a public meeting at which the attorney-general outlined the accusations against Mr Aleman. “You took pensions from the retirees, medicine from the sick, salaries from the teachers. You stole the people's trust.”

The government claims that Mr Aleman and his associates laundered public funds through front

companies and bank accounts in Panama, the Caribbean and Miami. They are alleged to have used thousands of official cheques to divert funds from government accounts, including those of the finance ministry and state-owned oil and communications companies. Mr Aleman is also alleged to have run up $1.8m in personal expenses on a credit card charged to the Central Bank, including jewels, carpets, and bills for hotels and a Paris nightclub. Those accused include Mr Aleman's wife, a brother, a sister and a nephew, as well as three former ministers.

Mr Aleman has denied any wrongdoing. And some of the evidence is indeed confusing. It is unclear how much of the missing money can be legally accounted for. So far, Mr Aleman has been charged only with diverting about $10m from the state television company to accounts in Panama. But other charges are likely. And fresh evidence is piling up.

The main obstacle to bringing Mr Aleman to justice is that he enjoys immunity from prosecution. A pact he made in 2000 with Daniel Ortega, the Sandinist leader, brought about constitutional changes that give both men automatic seats in the National Assembly. Mr Ortega invoked parliamentary immunity to avoid prosecution over claims that he sexually abused his step-daughter.

Blackmail over the budget

The government last week asked the assembly to lift Mr Aleman's immunity when it returns from its summer recess on September 10th. This requires only a simple majority vote. But Mr Aleman retains the support of his party, which has 53 of the 92 seats. He and his supporters have already blocked approval of the budget and tax reforms. Without these, Nicaragua will not qualify for further money from the IMF, and might have to default on its foreign debt. Nicaraguan officials have begun talks with the IMF over this impasse.

The government has the public on its side. Mr Aleman, known as “Gordoman” (Fatman) because of his physique and American links, left office despised. Nicaraguans have little to thank him for besides a few landscaped roundabouts from his period as mayor of Managua, the capital. Fast economic growth during his presidency came at the cost of swelling deficits, and did little to reduce poverty. Meanwhile, Mr Aleman declared assets of $26,000 on becoming mayor in 1990, and of $1.4m on leaving office in 2001.

The United States also seems convinced by the case against him. Though not referring to Mr Aleman directly, American officials have repeatedly backed Mr Bolaños's anti-corruption efforts. Oliver Garza, the outgoing American ambassador, says the allegations amounted to “one of the biggest frauds committed in any country”. He asks of Mr Aleman's allies in the National Assembly: “How much more proof do they want?”

Nicaraguan officials have hinted that Mr Aleman could be extradited for trial in the United States under American money-laundering laws. The State Department is following the case closely. The department has revoked the American visa of Byron Jerez, Mr Aleman's alleged co-conspirator and former tax chief, now in jail in Nicaragua for his part in the alleged fraud.

Time may run out for Mr Aleman too. Mr Bolaños is threatening to organise a national demonstration against the assembly if it does not strip Mr Aleman of his immunity. Right across Latin America, parliamentary immunity has long been abused to prevent the corrupt from facing justice. This ruse is finally wearing thin. Brazil's Congress has recently expelled several members who faced corruption charges. Next month, Nicaragua's assembly could strike another blow against the impunity of the powerful.

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Argentina's collapse

Sifting through the rubbish

Aug 22nd 2002 | BUENOS AIRES
From The Economist print edition

The new poor are finding many ways to get by

Reuters

A growing and competitive industry

OUTSIDE the office of the Nuevo Rumbo ("New Direction") recycling co-operative, a queue of women and teenagers forms in the wintry sun. They are waiting to be paid for their finds from a morning spent rummaging through the rubbish in Lomas de Zamora, a district of 800,000 people, on the outskirts of Buenos Aires. A couple of years ago, only a handful of *cartoneros*, as the scavengers are known, worked in the co-operative. Now there are more than 300 of them.

Since Argentina's economy collapsed at the end of last year, scavenging has become a mainstream job. Pepe Cordoba, the co-op's president, reckons that 15,000 families live from the district's rubbish, a fivefold increase from two years ago. In Argentina as a whole, he says, around 300,000 families are supported this way. Many of the new recruits once had jobs in the Buenos Aires' rustbelt, where miles of boarded-up factories testify to the demise of Argentina's industry. At least the devaluation of the peso since December has made Argentine rubbish competitive. Prices for waste cardboard, for example, are 20 times higher this year than last, Mr Cordoba says. A good *cartonero* can earn 600 pesos ($169) a month, one-and-a-half times the average wage.

At the last official count, in May, 21.5% of Argentine workers were unemployed. In reality, says Artemio Lopez, a sociologist, at least one in three lacks a proper job. One in five citizens of what was long Latin America's richest country now live in extreme poverty, which according to Mr Lopez means they go hungry unless they have access to a free food programme.

The new poor have found new ways to make ends meet. Some have become *cartoneros*. Many have become streetsellers, crowding city centres. Others have dropped out of the money economy and rely on barter, through an exchange network that drew in as much as a third of the population at its peak earlier this year. Since then, around 30% of the network has closed down, according to Carlos Pellioli, who organises a barter market. It was swamped by a massive influx of people "who brought nothing but their hunger". As a result, it began to reveal some familiar Argentine vices. Extra credit slips were printed to accommodate the system's sudden growth. That, and counterfeiting, meant that the barter system has suffered hyperinflation. Ten credit slips used to buy goods worth ten pesos; now their value is around one peso, says Mr Pellioli.

Crime of other kinds is rising, too. Buenos Aires is plagued by thefts of telephone cables, manhole covers and ornamental plaques. Many posters are ripped down as soon as they are put up. Such goods are "recycled" by less scrupulous *cartoneros* than Mr Cordoba's team. The middle classes suffer "express" kidnappings, where a victim is taken for a few hours and released for as little as $100. Another trick is more ingenious. Fake "market researchers", clipboards in hand, interview people in cinema queues, and obtain their name and address. They then contact their families, inform them that the victim has been kidnapped, and extract a ransom—all before the final credits roll.

Grim though life has become, Argentines show little sign of taking to the streets, to repeat the protests and looting that toppled two presidents in December. Their mood is one of depression and shame, more than anger, at the country's plight. No genuinely mass movement has emerged to articulate grievance. Street protestors from places like Lomas have little in common with well-heeled savers who gather outside banks to sing the national anthem while demanding that they be repaid their frozen bank deposits in dollars. Neighbourhood assemblies that sprang up during December's protests have

degenerated into talking shops for bearded leftists nostalgic for the 1960s.

Officials claim that the economy's fall has finally halted. Last week, the government sent a draft letter of intent to the IMF; it hopes soon to have a limited agreement that would merely roll-over its debts to the Fund. But a new obstacle has arisen: Congress has approved two bills whose effect is to reverse the recent repeal of a bankruptcy law which favoured debtors at the expense of banks. With recovery still looking remote, the army of scavengers is likely to carry on growing.

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Politics in Canada

Chrétien's long goodbye

Aug 22nd 2002 | OTTAWA
From The Economist print edition

The prime minister unveils his retirement plans, at last

Reuters

TRUE to form, Jean Chrétien kept his Liberal party guessing right to the end. He had just made a tough speech to a party conclave, defending his leadership, setting out new policies, and taking barely veiled shots at Paul Martin, his chief rival, whom he fired as finance minister in June. But on August 21st, with the headlines in that morning's papers proclaiming “He'll stay and fight”, Canada's prime minister of the past nine years suddenly announced that he would step down in February 2004.

Sudden it may have been, but not unexpected. Mr Chrétien's grip on power has been in question since his split with Mr Martin, who had refused to shut down his increasingly open campaign for the Liberal leadership. As a result, Mr Chrétien was likely to face, and to lose, a leadership vote at a party convention due next February. In an ill-advised move last week, his people asked all 170 Liberal MPs to sign a loyalty letter. Only 94 did so.

Mr Chrétien said that he hoped that his announcement would “end the fighting”. Though for months he has teased questioners about his intentions, he revealed that he and his wife had agreed two years ago that he would not fight a fourth election, and had quietly bought property in Ottawa. By February 2004, Mr Chrétien will be 70, and will have completed 40 years as an MP and ten consecutive years as prime minister—parliamentary milestones which he cherishes. He said he would also have implemented new policies to cut poverty, reform health care, and rebuild urban infrastructure. But a new leader would still have time to make a mark before the next election. This does not have to occur before November 2005.

Far from ending the fighting, Mr Chrétien has made a clever attempt to control it. Despite Mr Martin's great popularity with Liberals, and across the country, Mr Chrétien seems determined to try to deny him the top job. By delaying his departure for so long, and by avoiding a straight fight with Mr Martin, he has tipped the odds against his former finance minister. Mr Martin will be 64 next week, and will be easily the oldest contender.

Mr Chrétien's apparent favourite is John Manley, his new finance minister, who will be just 54 when the prime minister steps down. Mr Chrétien said pointedly this week that “it will take possibly two budgets of Mr Manley” to set the legislative framework for the new policies. By then, perhaps, Mr Martin's earlier successes in ending budget deficits will have been forgotten. Other contenders are also comparatively young. Sheila Copps, the heritage minister, will be only 51, and Allan Rock, the industry minister, 56.

Over the next 18 months, these younger cabinet hopefuls will have a chance to shine, while Mr Martin remains a backbencher in the shadows. But Mr Chrétien, a consummate political fighter, has lost his penultimate battle. By being forced to reveal his plans so early, he has consigned himself to a lengthy twilight in which to hobble around as a lame duck.

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The Caribbean

Sick in Antigua

Aug 22nd 2002 | PORT OF SPAIN
From The Economist print edition

The rot in a one-party, one-family, state

AP

Not a cheep from Bird

A SHOWER of cold water helped Antigua to come round after the excesses of its annual carnival this month. Following a year-long investigation into mismanagement of the Caribbean island's medical-benefits scheme, a Royal Commission of Inquiry recommended appointing a special prosecutor to look into charges against a dozen people, including two former health ministers, implicated in abusing the scheme. That ought to be an embarrassment for Lester Bird, the prime minister; if the man were capable of embarrassment, that is.

The report had been eagerly awaited. A sixth of the population of 72,000 had signed a petition calling for the inquiry. Islanders listened, riveted, to dramatic live broadcasts as 69 witnesses were interviewed. The scheme's former superintendent broke down as she gave evidence. Admitted to intensive care, she flew off to New York three days later. Two other witnesses were struck down with sudden illnesses. In May, the commissioners received a death threat, and there was a break-in at their offices.

The commission found that the government had failed to pay in the contributions it had deducted from its own employees. Much of the money that did reach the scheme was diverted to the health ministry's budget, or spent on overpriced pharmaceuticals, and even a $37,000 children's party. Though the fund provided patchy health care for most of the insured, it sent cabinet ministers abroad for annual check-ups.

The inquiry laid some blame on the scheme's auditors, Pannell Kerr Foster, concluding that a senior auditor in the firm's local office “designed and participated in a web of dishonesty to defraud the [scheme]”. But PKF claims that it warned of problems, could not be expected to look for fraud, and that the auditor concerned had an unauthorised private job with the scheme.

Antigua has other problems. A new hospital (partly funded by the medical-benefits scheme) that was not put out to tender is to cost $60m, double the original estimate. Civil servants are routinely paid late. Widely-touted tourism projects have not materialised.

Mr Bird has been in office since 1994, having taken over from his long-serving father. His agriculture minister is his brother, even though an earlier inquiry into an arms-dealing scandal said that this sibling should be barred from public office. Nonetheless, Mr Bird is all insouciance. The inquiry made no direct criticism of him, and the offending ministers have gone. But as prime minister and finance minister, he makes the big decisions. He is balking at the commission's call to turn the scheme into an autonomous agency. An election is not due until 2004. Until then, hung-over Antiguans had better avoid getting ill.

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Water in India

Nor any drop to drink

Aug 22nd 2002 | DELHI AND HYDERABAD
From The Economist print edition

AP

India has plenty of water, but lacks good systems—political as well as infrastructural—for allocating it. Andhra Pradesh is pointing the way

CHILI is expensive to grow. So last year, when Boda Balu's 1½ acres were not getting enough water, he went up his canal with an axe to where a richer farmer was drawing off water and smashed his pump. Y. Ranga Reddy, president of a water distribution committee on a nearby canal, is alarmed about pump-smashing on a grander scale. The government of Andhra Pradesh, the southern state where both he and Mr Balu live, is releasing dam water for electricity generation, rather than supplying it to the farmers of the water-starved Telengana region. For the second year running a scant monsoon threatens their crops. “If the situation continues there might be a point where people will destroy the electricity company,” he says.

All of India, not just Andhra Pradesh, is prone to water rage. Louder versions of Mr Balu's spat are occurring within states, between states and between different sorts of water consumer. They are bound to get worse. India is expected to have another 400m people by 2025; industry and households will demand a larger share of fresh water from agriculture, which now consumes 85% of it. Nearly three-quarters of Indians will then be living in regions with less than 1,000 cubic metres of water (264,000 American gallons) per person per year, too little to sustain economic development. The government is aware of this slow-motion crisis, but unprepared.

India as a whole is not parched. It has substantially more water per head than Korea and South Africa. It grows enough food to feed itself even when the monsoon disappoints. The trouble is that India gets most of its water during the four-month monsoon, that some areas have far less than others and that it is mismanaged. The World Bank points out that drier countries than India have higher agricultural yields and more water available for drinking, sanitation and industry.

India's policies practically guarantee mismanagement. In Punjab, India's breadbasket, price supports and free electricity encourage farmers to grow water-guzzling rice, oblivious of the threat to the soil's fertility. Half of India's villages have inadequate drinking water.

Water is virtually free to most consumers, but their rights are fuzzy. Groundwater belongs to the owner of the land on top of it; surface water is the property of the state, which is loth to charge consumers anything close to the price of supplying it. Bureaucracies are too poor and indifferent to administer it efficiently or fairly. India's canals lose 70% of the water they carry before it gets to the consumer. Under the constitution, water is mainly the business of the states, not the central government. Their quarrels are bitter. The southern state of Tamil Nadu claims that neighbouring Karnataka violates commitments to share water from the Cauvery river. “If the Cauvery problem is not solved,” wrote one Tamil Nadu MP

this month, “Tamil Nadu could go the way of Kashmir.”

Arguments about what to do are equally acerbic. Some non-governmental organisations see the answer in mobilising local communities to harvest rain and develop watersheds. Thus, even the wastes of Rajasthan can bloom. Such initiatives can extend water rights to people who have traditionally lacked them, such as landless labourers. Activists are usually hostile to the government's traditional reliance on big projects, especially dams like the one planned across the Narmada river. “Privatisation” is also anathema: water is a social good, not an economic one.

There is a sensible synthesis, which is what the central government largely supports. This treats water as both an economic and a social good, favouring prices that encourage investment and conservation as well as subsidies to protect the poor. It advocates giving a role in the allocation of water to organisations that span river basins, which normally cross state lines. And it champions participation by water users, especially farmers. Here, Andhra Pradesh is India's role model. In 1997 it began a revolutionary restructuring of irrigation, handing over control of canals to 10,000 “water users' associations” (WUAs), groups of farmers who elect leaders to manage the system.

Is it working? Clearly, some good has been done. The World Bank paid for a burst of repairs that unclogged and strengthened canals, allowing water to reach fields that had been cut off for years. Andhra Pradesh's energetic chief minister, Chandrababu Naidu, boldly tripled water charges. Although they are still below the cost of supply, they do provide WUAs with funds to maintain the canals.

It is less clear that the associations have democratised control of irrigation. Their presidents, though elected, are usually the same people who have always run the show. One study of five WUAs found that 85% of their executives had landholdings of more than four hectares (ten acres), much larger than average. Many presidents are contractors for canal works; corruption, or at least the suspicion of it, is rife. The government claims that irrigated areas expanded by 700,000 acres in the first two years of the reform. “We can't find it,” says Peter Mollinga, a Dutch academic. What gains there have been, he thinks, come from the World Bank-financed repairs, not any increase in clout for weaker farmers. That, after all, is why Mr Balu took an axe to his neighbour's pump.

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Floods in Asia

China's lake of menace

Aug 22nd 2002 | BEIJING
From The Economist print edition

And high tides threaten Bangladesh

WHEN it's not a drought, it's a flood. In China this year, more than 900 people have died in floods, and officials fear that the toll could eventually exceed that of the 4,000 deaths in 1998. Emergency services in south China's Hunan province went on high alert this week on worries that rain-swollen Dongting Lake, 2,700 square kilometres (about 1,000 square miles), the size of Luxembourg, would burst its banks and threaten the lives, homes and farmland of 10m people. The lake's water level is the highest for three years. As in 1998, thousands of soldiers are standing by.

Flooding plagues much of southern China in the summer storm season, particularly along the Yangtze River and its tributaries. But while the south gets too much water, the northern and western provinces suffer from drought. In July, the government approved a colossal scheme aimed at evening things out. China plans to spend more than $50 billion to dig three canals, each one 600km (375 miles) long, that between them will carry 48 billion tonnes of water annually from the Yangtze to the north.

The project is controversial. It will displace an estimated 250,000 people, and some experts fret that tampering on such a massive scale with the nation's river systems could bring unforeseen consequences. But given the alarming news from south China this week, the temptation is indeed understandable.

Meanwhile, Bangladesh, to China's south, is suffering from the habitual flooding that accompanies the monsoon. This week exceptionally high tides made at least 50,000 people homeless along the Bay of Bengal.

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Japan

Enter, at last, a gang of four

Aug 22nd 2002 | TOKYO
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Young reformers hope to whip the opposition into shape

JAPAN'S predicament, as everyone knows, is dismal. A decade of flat or negative growth, record unemployment, a collapse in asset prices: in most countries, these would surely spell political death for the party that had presided over the mess. Yet the leaders of Japan's Democratic Party, the biggest in the opposition, seem poorly equipped to take advantage of what ought to be a highly favourable political setting. Young Democrats such as Shigefumi Matsuzawa, 44, the eupeptic representative for Kanagawa, believe it is time to change that.

At the next election for party president, on September 23rd, Mr Matsuzawa hopes to turn Japanese politics on its head by replacing the Democrats' familiar leaders with one of the four little-known young members—preferably himself—who have recently tossed their hats into the ring. “We are in a time”, he says plainly, “when we have to gamble.”

In a healthier democracy, knocking off a ruling party as corrupt and enfeebled as the Liberal Democratic Party would hardly require much of an appetite for risk. The LDP has been battered by a storm of recent scandals. Many of its top people are old. It has no clear plan for ending a decade-long economic slump, and has steered its youthful prime minister, Junichiro Koizumi, away from every popular idea he ever endorsed.

For the Democrats, the tantalising fruit of real power is dangling about as closely within reach as it can get. Yet the party still seems to lack the stature to reach up and pluck it. Despite everything, it trails the LDP by 23 percentage points in opinion polls. And its two main leaders, Yukio Hatoyama (its distinctly lacklustre current president and party leader) and Naoto Kan (the secretary-general, and the most popular Democrat among the general public) have no convincing strategy for winning over unaligned voters.

That pitiful opposition showing is the driving force behind the younger MPs' gamble—actually, two gambles. First, the four youngsters, three of whom are in their early 40s, may be risking bright futures by sticking their necks out this time around, rather than simply biding their time. The leadership race will already feature several senior members of the party, including Mr Kan (with 26% national support) and Mr Hatoyama (17%). The four young Democratic hopefuls, by contrast, pull 1-2% support each among the wider public.

The other gamble is less a personal risk than a party one. If any of the young contenders does manage to seize the top post, say the stalwarts, they risk splitting the very party that they hope to ride into office. Formed during the tumultuous realignments of the mid-1990s, the Democrats comprise former factions of several other parties, from the LDP itself to the Socialists. Its rough platform tries to bind these factions together by combining a call for greater competition with plans to extend the safety net under those who lose their balance in the upheaval. When Mr Kan labelled this amalgamation “the party of Thatcher and Blair”, he appears to have meant it as a good thing.

Most disgruntled young Democrats favour more emphasis on the competition side of the economic-reform ledger. Their current leaders, they complain, are too quick to compromise with labour unions, parts of the bureaucracy and other interest groups that are opposed to bankers and executives but do not necessarily favour freer markets. Because these groups are also content with Japan's corporatist economy, the youngsters argue, the Democrats cannot tear into the LDP's policies as viciously as they should.

If they are going to take on these leaders, however, the youngsters must first whittle down their list of

challengers. After meeting again on August 20th, a group of 50 young Democrats still could not get any of the four to drop out. The two front-runners, Seiji Maehara and Yoshihiko Noda, have locked up the 20 MPs they need to back a leadership bid; but Mr Matsuzawa and Takashi Kawamura (a maverick businessman, and at 53 the oldest of the group) have yet to bow out. A simple vote among young Democrats seems too hard to agree upon.

Their slowness in whittling down the field to a viable one candidate suggests that, in one crucial sense, the junior Democrats may not be too different from the leaders they aim to supplant. When talking about the current stalemate, they exude less a real sense of urgency than, at best, a theoretical appreciation of the merits of acting urgently. But if they cannot speedily sort out their leadership bid, the young Democrats will surely fall together, and their party will have missed a golden opportunity to renew itself. The same might be said, perhaps, for Japan.

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Indonesian justice

Just doing their duty?

Aug 22nd 2002 | JAKARTA
From The Economist print edition

Verdict on the East Timor trials

Get article background

IF THERE is one subject on which foreigners and Indonesians misunderstand one another, it is East Timor. In 1999, foreign diplomats hoped they had sealed an agreement with the Indonesian government when it agreed to hold a referendum on the province's future. But when the East Timorese opted for independence, local militias, helped by Indonesian soldiers and bureaucrats, put the place to the torch.

EPA

Just chums, really

Foreign governments were outraged. They thought they had secured some restitution in 2000 when Indonesia agreed to try those responsible for the violence. But the tribunal set up for the purpose has now handed down its first verdicts, and it looks as if the world is in for another nasty surprise. On August 15th, a policeman and four soldiers accused of complicity in a massacre, and Timbul Silaen, East Timor's police chief at the time of the referendum, were all acquitted. The day before, Abilio Soares, the province's governor in 1999, had been sentenced to three years, thought by critics to be unduly lenient. Many of the remaining 16 defendants are expected to go free.

The government has taken a half-hearted approach to the tribunal. The law creating it limited its scope to the events of a few months and a few districts of East Timor. The attorney-general's office decided not to prosecute almost half those put forward by Indonesia's National Commission for Human Rights. The government appointed inexperienced judges to hear the cases. Prosecutors called few hostile witnesses. In the case of Timbul Silaen, they summoned only two Timorese to the stand, both of whom testified that the accused was not such a bad egg. Above all, the prosecution did not really challenge the defence's contention that the authorities were bystanders, rather than orchestrators of the conflict.

Human-rights activists, citing the verdicts as proof of the Indonesian tribunal's inadequacy, are now calling for some sort of international body to be set up, akin to those trying war-crimes suspects from Rwanda and Yugoslavia. But that seems unlikely, since many of the countries that pushed for the trials in the first place now have other concerns. America is keen to keep Indonesia's backing for the war on terror. Donald Rumsfeld, its secretary of defence, praised the tribunal during a visit to Indonesia in February. Even the Timorese themselves seem ready to let bygones be bygones, in the interest of national reconciliation and good relations with their giant neighbour. Xanana Gusmao, the new country's president, sent the tribunal a letter appealing for clemency in the case of Mr Soares.

Such discretion may be a wise course for East Timor, but may not make Indonesia a better place. Senior army officers visited the tribunal to show their support for the accused, who, according to the armed-forces' commander, had only been doing their duty. Indonesian soldiers continue to commit abuses in restive provinces such as Aceh. Meanwhile, many Indonesians believe that their country was and is the victim of an international conspiracy to dismember it. That sets the stage for more misunderstandings to come.

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Pakistan

Five more years

Aug 22nd 2002 | LAHORE
From The Economist print edition

The dictator awards himself a new term

Get article background

“IF YOU want to keep the army out, you have to bring it in.” Thus, surreally, spake General Pervez Musharraf, Pakistan's latest Bonaparte, at the televised press conference on August 21st at which he announced his own coronation as president, army chief and chairman of a powerful new National Security Council for the next five years.

In the same breath, he insisted that neither he nor the army would have anything to do with actually running the country. As president, however, he will have the power to sack parliament, and the provincial governors appointed by him will have the power to sack provincial parliaments. The NSC will comprise the three service chiefs and the chairman of the joint chiefs of staff, as well as the prime minister, the leader of the opposition, the four chief ministers and the chairpersons of both houses of parliament. The general will chair—and dominate—this powerful body.

The constitutional amendments have been carried out under the cover of a “legal framework order” issued on August 21st that simply inserts a new article (270A) in the constitution to validate all acts by his government since it seized power at gunpoint in October 1999.

“The supreme court has permitted me to do so. If anyone wants to challenge this, he can go to the supreme court,” the general said, in ruling out a demand by the political parties that his amendments should be validated by the next elected parliament. “I don't need parliament's approval for these amendment.” However, he said that parliament will have the power to undo them by a two-thirds majority.

But there is a catch. For he also says that if the next parliament tried to gang up against him and the NSC, he would be forced to choose between resigning or sacking the parliament. No prizes for guessing which it would be. With the opposition having denounced the move as illegal, writs are bound to fly thick and fast.

Still, at his press conference, General Musharraf told citizens to look on the bright side. He claimed that more than two-thirds of the constitutional amendments proposed by his government a month ago had been dropped in response to public feedback. These included a measure that would have enabled him to appoint and remove prime ministers (though since he can dissolve parliament, this concession may be moot.) “This is a critical transition period from democratic dictatorship to an elected democracy,” he averred.

Powerful he may be: but not safe. Fears of assassination are confining the general to the capital, Islamabad. A speaking engagement in Karachi this month was cancelled at the last minute on the advice of intelligence chiefs. General Musharraf has become a prime target for al-Qaeda terrorists and their Pakistani allies since the government began helping American agents track them down. In April, officials say, a group allied to al-Qaeda planted a car bomb on a road taken by General Musharraf in Karachi. It failed to explode.

Pakistan has become a dangerous place for anyone with western links. In January, an American journalist, Daniel Pearl, was kidnapped and murdered. In March five people, among them two Americans, died in a grenade attack on a Christian church in Islamabad. In May, a bomb in Karachi killed 14 people, 11 of them French technicians. Pakistan's intelligence agencies now fear that government officials may be the next targets of al-Qaeda in a move to destabilise the country in the run-up to the general election in

October. Uneasy lies the head that wears the (stolen) crown.

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A war crime in Afghanistan

Dead on arrival

Aug 22nd 2002
From The Economist print edition

Did America's Afghan allies deliberately suffocate prisoners?

TO FIGHT the Taliban, America has relied on local allies who may be war criminals. *Newsweek* claimed this week that almost 1,000 fighters who surrendered to Northern Alliance forces in November were crammed into sealed containers and deliberately condemned to a slow death while being transferred to the Sheberghan prison near Mazar-i-Sharif. Their bodies, according to the report, were then dumped in a mass grave near the prison. There is now mounting pressure on local and international authorities to uncover the truth.

The presence of what appears to be a mass grave at Dasht-e Leili, near the prison, has been known for a while. Physicians for Human Rights (PHR), an advocacy group which took a look at mass graves near Mazar-i-Sharif in January, concluded that this one contained recent human remains, and locals have told the group that a large number of Taliban prisoners were buried there. In April the UN sent a forensic team to the site. The examination revealed that the victims died by suffocation. For the past six months, PHR has been calling for a full investigation, without any success, so the allegations have still not been verified.

America's defence department says that although there were American forces in the area at the time, no one has any knowledge of the alleged crime. PHR was told earlier this month by Joseph Collins, a deputy assistant secretary of defence, that the Pentagon would take no action to secure the site or investigate it.

Even for those who made it to Sheberghan alive, life has not been pleasant. Under the authority of Abdul Rashid Dostum, a notorious local warlord and former deputy minister of defence, the prison is a byword for the mistreatment of prisoners. Following the defeat of the Taliban in the north, the prison—with an estimated capacity of less than 1,000—held about 3,500 men. In January, PHR reported severe overcrowding, appalling sanitary conditions, dysentery and malnutrition.

The situation appears to have improved a bit since then, thanks to the intervention of the Red Cross. The release of over 2000 of prisoners has reduced the overcrowding. The fate of those still behind bars, however, is unclear, as the Afghan judiciary is in no position to deal with them. What will happen to the 75-odd being held by coalition forces in Kandahar and Bagram, in addition to the 550 who were transferred to Guantanamo Bay, is no less uncertain. None of them has been charged with any crime.

Pending a full investigation, it is difficult to be sure what happened at Dasht-e Leili, or at the many other mass graves around the country. And investigating is no minor endeavour. Security is dicey. No credible protection can be offered to witnesses. Neither the Afghan government nor the outside world has decided on how to deal with alleged war criminals. Leonard Rubenstein, executive director at PHR, insists that the potential enormity of this crime warrants some action. Sooner or later, its perpetrators should have to answer for their actions. The question the Americans might have to answer is whether they should have kept their Afghan allies on a much tighter leash.

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Saudi Arabian murmurs

Palpitations at the kingdom's heart

Aug 22nd 2002
From The Economist print edition

Corbis

No revolution, but a burst of (relatively) open expression

Get article background

SHOCKWAVES from last September's attacks on America continue to buffet Saudi Arabia, rocking its relations with the West and stirring change inside the kingdom. They have even reached Buraydah, a city famed for its rigid puritanism. Suddenly, in this desert Vatican, men are talking to women, even some with their faces bared, about reforming the strict Saudi branch of Islam. “We have to develop a modern, tolerant and inclusive interpretation of faith,” says one of the participants, Mohsen al-Awaji, who was once jailed for religious extremism.

This is no revolution. Women still need permission from their male relatives to attend such meetings, and are not allowed to drive home. But the fallout could be far-reaching for Buraydah's clerics, who for the past 70 years have enforced their brand of Islam on the peninsula and used Saudi petrodollars to spread it throughout the world. In a town where television was long scorned, the guardians of tradition now compete to appear on satellite channels. One-time firebrands, such as Salman al-Awda, a dissident hardliner, issue cyber *fatwas* on the legality of anything from opening internet cafés to oral sex (both permitted, according to his website).

Nor is Buraydah just reassessing its relations with women. In the 1990s, a senior cleric pronounced the kingdom's underprivileged minority Shia sect to be pagans. Now Shia leaders are invited to give lectures in the homes and on the websites of leading clergy, and on state television. There is a long way to go. The courts enforce a strict brand of Sunni law on all sects. But nobody, says a leading scholar, can now say that the Shia are not Muslim.

Outside Buraydah, old Saudi taboos are being regularly broken. In a society that bans the sexes from mixing in public, girls and boys in the Shia towns of the Eastern Province have braved riot police to march together for Palestine. In Jeddah, on the western coast, women staged their own rally along the Corniche. Young men shrug their shoulders at the religious police, the *mutawaeen*, who try to push them to prayer. Televised Lebanese soap-operas, sporting night-clubbing couples, attract larger audiences than the sheikhs, and popular web newspapers run by liberals use photos of scantily-clad Arab film starlets to pull the punters.

The *glasnost* has even infected the mainstream Saudi press. Earlier this year, newspapers attacked the hitherto untouchable religious police for killing 15 girls in a Mecca school dormitory. They had, said the press, prevented the girls' escape from a fire in the school because they were not properly veiled. In the

subsequent outcry, editorials demanded and won an end to religious control of girls' education—no mean feat in a state where the clergy have held power with the Al Sauds for the past 250 years.

Saudi old hands say that a few disgruntled people do not add up to regime-change. And they note that they have seen it before. After the last Gulf war, hundreds of liberals and Islamists risked prison to sign petitions demanding elections and accountable government. All they got was an unelected consultative assembly.

So, too, in response to the latest critical outbursts, editors known for their liberalism have been fired, and internet chatrooms forced to close. Saudi eavesdroppers ensured that Mr al-Awaji, who had talked to *The Economist* by telephone, was banned from talking to the press, and deprived of his passport. And several of the petitioners on a manifesto, signed by 160 scholars, calling for a new attitude to non-Muslims, retracted their names after they were rebuked by Osama bin Laden sympathisers for showing more sympathy for the “collateral damage” of the attacks on New York than for the victims of the American bombing of Afghanistan.

But this time the protesters may not be so easily muzzled. After the Gulf war, the critics were bitterly divided, the House of Saud was strong and rich, and had unquestioned western backing. No longer.

Questions are being asked about how loyal young Saudis, who make up two-thirds of the population, are to a monarchy that in less than a generation has watched incomes fall from $24,000 to $7,000 a year. As King Fahd, aged 82, drifts in and out of hospital (he is currently resting in his Costa del Sol palace, having flown there with an accompanying fleet of private aircraft), there is disquiet over the eventual line of succession. Reformists discuss the formation of a new broad front.

Cracks in the alliance with America, which yawned open after September 11th, continue to widen. Leaked records from a Pentagon think-tank last month called the Saudi export of Islamic militancy “a kernel of evil”, portraying it as a greater threat to America than Iraq. A group of bereaved Americans has filed a trillion-dollar lawsuit, accusing three senior Saudi princes, among others, of ultimate responsibility for the World Trade Centre attacks. Such projections of hostility, along with fears of over-zealous financial policing in search of terrorist funding, may have prompted Saudis to divest tens, perhaps hundreds, of billions of dollars in American assets.

Yet America's new punchiness, and its belligerency towards Iraq, could help the Saudi royal family in a backhanded way. Faced with a foreign threat, the kingdom is pulling together: Crown Prince Abdullah's refusal to let America use Saudi bases to strike Iraq is enormously popular. But this respite is likely to prove temporary: reform, eventually, is essential.

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The Palestinians

Is it doomed?

Aug 22nd 2002 | BETHLEHEM
From The Economist print edition

A plan to ease conditions in Gaza and Bethlehem stumbles into force

Get article background

EPA

Our own friendly policeman

AFTER weeks of haggling, Israel and the Palestinian Authority (PA) agreed on August 18th to press ahead with the scheme called “Gaza, Bethlehem first”. The brainchild of Binyamin Ben-Eliezer, Israel's defence minister, the plan has a modest goal: in return for Palestinian efforts to achieve a “ceasefire”, Israel will relax its military and economic blockades in these two areas. If all goes well, similar arrangements can be extended to the six West Bank cities still under Israeli occupation. Hebron is marked as next in line.

In its first few days, the scheme has worked better in Bethlehem than in Gaza. On August 19th the army lifted the curfew on Bethlehem for the first time in 50 days, and withdrew its patrols to the outskirts, where a rigorous blockade was enforced. Uniformed Palestinian police officers emerged from the rubble of their offices to steer traffic, show willing and be welcomed by the city's 46,000 residents. “It's a step forward,” said the mayor, Hanna Nasser, but pointed out that the siege still means an 80% unemployment rate.

In Gaza there was not even a step. On August 20th a Hamas sniper shot dead an Israeli soldier, in reprisal, the organisation said, for the killing of one of their men the week before. In return fire, the army killed a 15-year-old Palestinian, who was not the sniper. The next day Israeli tanks razed several houses, killing one Palestinian, in Gaza's Khan Yunis refugee camp.

And, Bethlehem apart, business was much as usual in the West Bank too. On August 19th, a boy aged 13, who had been throwing stones at soldiers, was shot dead near Jenin. The next day, the army invaded Tulkarm refugee camp, killing an activist from Yasser Arafat's Fatah movement. The same day, in a shoot-out in Ramallah, an Israeli undercover squad killed Muhammad Saadat, the brother of Ahmad Saadat, who leads the Popular Front for the Liberation of Palestine (PFLP), and is held under American and British supervision in a Jericho prison. The PFLP vowed revenge.

It is not alone. All the Palestinian factions have come out against “Gaza, Bethlehem first”, declaring it to be an Israeli ruse so that “there can be quiet in Bethlehem and curfews in Nablus.” Their veto is crucial: no ceasefire can hold for long without active support from Fatah and at least tacit acceptance by Hamas. The Palestinian Authority has neither the strength nor the authority to impose order by force.

Why did Mr Arafat approve a scheme that seems doomed to failure? One reason is that by taking part, he hoped to refute Israel's claim that when it talked to the PA, it was not dealing with Mr Arafat. But the main reason, say Palestinians, was his lack of choice. He has been told, by the European Union and by Arab governments, that the only road to political and economic salvation is through local ceasefires coupled with genuine moves towards reforming his administration.

Military advisers from Egypt and Jordan are waiting in the wings to train the Palestinian police in ways laid down by the CIA. This week a PA delegation went to Paris to discuss institutional reforms with a group of American, EU and UN representatives. In return, says Ghassan Khatib, the PA's labour minister, the Palestinians seek economic help—and political pressure on Israel to lift the blockades.

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Airwaves war

Towers of Babelaganda

Aug 22nd 2002 | CAIRO
From The Economist print edition

Blasting out propaganda over the Middle East's airwaves

THERE is nothing new about trying to capture hearts and minds in the Middle East. It was to counter Nazi influence that the BBC launched its Arabic service in 1938, its first foray into foreign languages. During the 1950s, Britain and France accused Radio Cairo of spreading the virulent Arab nationalism that was damaging their imperial interests. But the region's airwaves have never been thicker with persuasion than now.

Since last September, the belief that “they only hate us because they don't know us” has gripped Middle Eastern policymakers. Oddly enough, the same idea has struck everyone at once. Americans blame hostile propaganda for the Arabs' failure to like their policies. Israelis say Arab “incitement” set off the *intifada* and still fuels it. Arabs and Muslims charge the western press with smearing and distorting their image.

Open mouths, closed ears

All are gearing up to meet the challenge, with similar prescriptions and, so far, similarly meagre results. Israel's new Arabic-language satellite television, for example, is hard to receive in Arab capitals since none of the government-owned Arab satellites that cover the region best will carry it. Arabs who do catch it may have trouble locating what Israeli newscasters describe as Judea and Samaria, or in identifying the Israel Defence Force, since these things are better known to them as the West Bank and the Israeli army of occupation.

Not that the counter-attack has been any more effective. Earlier this year, both Syria and Egypt started beaming Hebrew-language news programmes at Israel. Their intended audience finds the mix of quaintly academic Hebrew and turgid panegyrics for their countries' respective leaders comical at best. Iran has got into the act, too, broadcasting Hebrew news on short wave and the Internet. Even Hizbullah, the Shia militia in Lebanon, has plans to target Israeli airwaves. Its satellite television in Arabic is far slicker than state-controlled versions, but, when rendered in Hebrew, its exaltation of war, gore and martyrdom is more likely to disgust Israelis than win them over.

Arab countries are also seeking to spread their influence farther west. In June, after a year of deliberation, the Arab League pledged $23m towards a media campaign against “Israeli and American attempts to portray the Palestinian national struggle as unjustified terrorism”. An English-language satellite channel is meant to be part of this effort, but bickering between the ministries of information that control most Arab broadcasting means it is unlikely to see the light of day.

Recognising this, a group of Saudi businessmen plans to sink $160m into a private satellite television service targeted at audiences in Western Europe and America. To be known as ATV, the broadcaster will address what Prince Mansour Al-Saud, a nephew of King Fahd, describes as “the misconceptions and distortions of enemy stations” regarding Islam and Arabs.

America has opted for a slightly more original effort. Stung by the pervasive anti-Americanism in the region, and chastened by surveys showing that fewer than one in 50 Arabs ever listened to the Voice of America, the United States has scrapped its old Arabic service in favour of a souped-up model. Known as Radio Sawa (“together”), the service features Arab and western pop music, punctuated by brief news bulletins that highlight American achievements. The idea is first to hook the under-30s, who make up 65% of the Arab population, then slowly introduce more “information” content.

Norman Pattiz, a radio magnate who has championed Radio Sawa as a member of the government board that controls America's overseas broadcasting, promises to “deliver the audience for our diplomacy mission”. So far, Congress has enthusiastically coughed up $35m. Critics, however, dismiss the whole thing as “Pop-aganda”, noting that the bitterest anti-Americans are hardly likely to be pop fans anyway. Although it was launched in March, the service can be heard on FM only in such safely Americanised havens as Kuwait, Amman and Dubai. The state broadcasting monopolies in places where America needs most to do better, such as Egypt, Syria and Saudi Arabia, are ultra-prickly about granting airwave access.

More to the point, Radio Sawa, like all its new rivals, will always be handicapped by an attitude that sees the fault lying with others. If everyone paused from blasting out words to listen, Americans might understand why they are seen as arrogant double-dealers, Israelis might realise why they are regarded as mean brutes, and Arabs might catch on that others have reason to find them xenophobic hypocrites. But that sounds like propaganda.

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Africa expects...

To talk about jobs, not birds

Aug 22nd 2002 | JOHANNESBURG
From The Economist print edition

What Africa wants from the summit on sustainable development

ASK the host of next week's UN summit on sustainable development what the gathered heads of state should be talking about, and you get a one-word answer: poverty. This, says Valli Moosa, South Africa's minister of the environment and one of the organisers of the meeting, will be the summit's theme. Without “concrete” or “pragmatic” action to fight poverty, fine words on greenery, global warming or fish stocks will come to naught.

To drive the theme home, Britain's prime minister, Tony Blair, will be whisked off to a rural village in Mozambique. America's secretary of state, Colin Powell, is to tour Angola, whose population is ranked the most wretched on earth by the UN. And, only five minutes' drive from the conference hall, delegates will be shown Alexandra township, one of South Africa's most stricken urban areas.

By concrete action Mr Moosa means measurable progress on the “millennium goals” of cutting illiteracy, infant mortality and poverty by 2015. Predetermined measurements can turn out to be unrealistic. But the very fact that the conference is being held in Africa ensures that the region's problems will be to the fore. Some 14m people are facing severe food shortages; entrenched poverty and disease have sent life expectancy plummeting; sub-Saharan Africa is the world's poorest region; and southern Africa has the world's highest rate of AIDS infections.

At pre-summit talks in Bali and New York, delegates found it hard to agree on a text for debate, but all accepted that the focus should be on Africa. Thabo Mbeki, South Africa's president, has been asked to write about Africa's problems for the final declaration. His text will call on rich countries and multinationals to back Nepad, the South African-backed New Partnership for Africa's Development, by providing more aid and more investment.

The UN has tried to make Africa the centre of the summit's debate by proposing five themes that are thought to be especially important to the continent's recovery: water, energy, health, farming and biodiversity. The World Bank argues that agriculture should be kept as high as possible on the agenda, in order to attack the protectionist farming policies of the rich.

New UN projects, such as its Equator Initiative, which identifies 27 successful examples of development in the tropics, will be put on show at the summit. Says Sean Southey, who works for the initiative: “Even the negotiated text on bio-diversity will have a poverty focus. People ask if this summit is more about jobs or birds. It's jobs, so much more about jobs than the Rio meeting was ten years ago.”

Even so, many Africans will be disappointed. AIDS campaigners from Botswana complained this week that the disease should have been the main focus. Representatives from UN agencies and the World Health Organisation privately concede that South Africa's controversial policy on AIDS means that the epidemic is being given less attention than it should be given, with roughly one-in-four sexually active southern Africans infected.

And, despite Africa's expectations, the conference in the end may provide more material on green issues and the changing climate than on poverty eradication. One lesson South Africa's government learnt from playing host to last year's disastrous UN summit on racism was that the best laid plans are sure to go awry.

For a start, and in the tradition set by Seattle, Washington, Prague and Genoa, Johannesburg's streets can be expected to be rowdy with anti-globalisation protest. The summit, say protesters, is a fraud, promoting heartless capitalism. Among the anti-privatisers, and fervent greens, will be members of

South Africa's landless movements, fighting “rural apartheid”. And Nepad, encompassing the “evils of neoliberalism” will be singled out for attack.

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The continent awash

After the deluge, moi?

Aug 22nd 2002 | FRANKFURT AND PRAGUE
From The Economist print edition

AP

The costs and political consequences of the great flood, especially for Germany and its chancellor, Gerhard Schröder (above), could be immense

THE newspapers and television call it *Jahrhundertflut*—the once-in-a-century flood. It has cost at least 16 German lives, swept away houses and cars, torn up roads, buckled railway lines and forced more than 100,000 to leave their homes, the biggest such evacuation of Germans since the second world war. The damage it has wrought in the former East Germany, still struggling to its feet a dozen years after the end of communism, has caused talk about a “second rebuilding” of the east and how to pay for it. And the flood might, just, carry Gerhard Schröder back into office as Germany's chancellor.

There have also been casualties across the Czech Republic, where at least 12 people died. Some 210,000 were forced from their homes; several thousand lost them. Chemical plants seeped chlorine into the waters. A quarter of the farmland in Bohemia, the western part of the country, was swamped. The historic centre of Prague, the capital, was saved by a determined effort. But low-lying areas of the city suffered. Whole districts were under water, underground-train lines flooded, riverside restaurants and tennis clubs swept away. Pong the gorilla was presumed drowned when Prague's zoo was submerged.

The president, Vaclav Havel, likened the mood of solidarity to the end of the Prague spring of 1968, when the Russians invaded. He now wants to reconsider how the Czech landscape is managed; some rivers, he says, were made more prone to flooding by communist meddling.

In Hungary, Danubian villages and suburbs upstream from Budapest were flooded too, but the banks on either side of the capital were, by a few feet, high and strong enough to keep the waters at bay. The mayor thanked the country's ruling forefathers for their foresight in building such splendid defences. It is the Tisza river, the Danube's tributary further east, that often does the flood-damage in Hungary. This time, though, it has held off.

But it is in Germany that the flood's political and economic consequences may be most profound. The worst of the destruction has been in the eastern state of Saxony. The Elbe and Mulde rivers burst through towns and villages. Tame brooks turned into torrents. In the state capital, Dresden, the Elbe reached a record high on August 17th. People battled to save the baroque city centre (see article).

As the Elbe's floodwaters headed north, they left a terrible mess.
More than 530km (331miles) of railway lines in Saxony and
740km of roads were rendered useless and 180 bridges destroyed.

The main rail lines connecting Dresden with Berlin, Leipzig and Prague were broken. Cars had been rammed against lamp-posts or through the surface of streets, the sides of houses ripped off. Countless shops and restaurants had been ruined. Streets and homes were caked in stinking mud.

Farther north, Germans braced themselves. Sandbags were filled and thousands of people evacuated from vulnerable spots. Fortunately, the weather stayed mainly dry, and, at midweek, a repeat of the upstream havoc looked unlikely, even though some places were flooded. The centre of Magdeburg, capital of Saxony-Anhalt, was spared as the river rose by less than feared. For all that, weakened dykes and the still-high level of the river meant that the danger had not yet passed.

The cost of all this is anybody's guess. Swiss Re, a reinsurer, has estimated *euro*15 billion ($14.7 billion) for the total damage done by the floods in Germany, Austria and the Czech Republic. Vladimir Spidla, the Czech prime minister, says the cost of cleaning up his country may exceed $2 billion. Much of that will come from privatisation revenues and cuts in next year's budget. In Germany, the finance minister of Saxony on August 21st estimated the damage in his state alone would cost up to *euro*16 billion ($15.7 billion) to put right.

But many economists reckon that Germany's GDP will scarcely be dented. Crops have been destroyed, it is true, and some people have not been able to get to work (or have no more work to go to), but much production will be delayed rather than lost altogether. Rebuilding work and the replacement of ruined goods may even give a bit of a boost to GDP.

Little of the damage in Germany, the Czech Republic and Austria will be covered by insurance—just 10-20%, says Swiss Re. Few Germans, especially in the west, want to insure against floods and those who do probably live in flood-prone areas where insurers charge high premiums. In the Czech Republic the proportion of households insured against flooding has doubled since 1997, when Moravia, in the east of the country, was inundated. But it is still only one in five.

In Germany, Mr Schröder's handling of the floods may have revived his flagging chances of winning the general election on September 22nd. As the waters rose, the chancellor and his ministers sloshed around afflicted areas, being seen and promising aid. His conservative challenger, Edmund Stoiber, remained on holiday on a North Sea island. Only a few days later did he turn up on the Saxon dykes.

Walking on water?

Mr Schröder has looked decisive as well as sympathetic. On August 19th, he proposed postponing for a year income-tax cuts that are due to take effect at the start of 2003. This should raise *euro*6.9 billion; another *euro*1 billion has been found by shuffling the transport budget. On economic grounds this is questionable. No one knows how much money is needed, and it might have been better to raise it in another way—say, by deeper cuts in other public spending (the finance minister, Hans Eichel, has promised to find *euro*250m in savings), or by issuing bonds and raising the necessary taxes over several years.

Politically, however, it looks spot-on. It smacks not only of firm leadership, but also of self-discipline: prodded by Mr Eichel, Mr Schröder is trying to keep Germany's swelling budget deficit below the 3% demanded of euro-zone members. There is even a hint of self-sacrifice: the tax reform is one of his proudest boasts.

Better still, Mr Schröder put the opposition in a fix. Because the tax cuts are already law, their reversal needs parliamentary approval. The conservatives could in theory block the plan in the upper house, which they control. Mr Stoiber has criticised the plan, saying that big businesses, which have already enjoyed the tax reform in the form of corporation-tax cuts, should also make a contribution.

Against that, Saxony, the prime beneficiary, is conservative-run; conservatives are also in government in other flood-hit states. And this is no time to look nit-picking. On August 21st the government said that it was willing to raise corporation tax, and thus rope in big firms, for the sake of compromise. The next day

Mr Stoiber said he would not block the plan but would replace it with his own, using the Bundesbank's profits, if he won the election.

Much depends on whether Mr Schröder has genuinely impressed Germans with his handling of the crisis or merely done what they expect of those in charge. For a few days, the dire state of the German economy, hitherto the dominant theme of the election, has scarcely been discussed. Mr Stoiber will be trying to ensure that the respite does not last.

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Floods and art

Treasures under water

Aug 22nd 2002
From The Economist print edition

Despite heroic rescue missions, some great art has been damaged

AP

Dresden's beleaguered Zwinger Palace

IT MAY have been the swiftest salvage operation ever mounted to save a priceless collection, and must be counted one of the most successful. Last week museum staff, state-government officials, firemen, policemen and volunteers moved about 20,000 works of art in Dresden's galleries and museums upstairs, or to buildings they hoped were flood-proof. None of the art was destroyed, though some pictures and sculptures were damaged by the water or carelessness in the hasty move.

One of the most spectacular rescue efforts involved shifting 4,000 paintings from the Old Masters' gallery at the baroque Zwinger Palace in just seven hours during the night of August 13th. With electricity on the blink, helpers lugged an assortment of Rubenses, Rembrandts and van Dycks to the upper floors by torch and candlelight as the Elbe's waters kept rising. A few pictures were too big for the doors. Paolo Veronese's “The Rape of Europa”, more than three metres wide, was one of five oversized paintings that were attached by ropes to the ceiling. They hang there still.

The Albertinum, a building on the banks of the Elbe housing four museums, opened its doors on August 20th for visitors to inspect the art-rescue mission. Yet it will take months if not years to repair the damage done. The workshops and tools that would normally be used to restore Dresden's art treasures have been swept away by the floods

Meanwhile in Prague, another cultural treasure-house, officials at libraries, palaces and museums are coping with the worst flooding of the city since 1890. Some palaces close to the Vltava river were flooded. The cellars of the Jewish museum have been inundated; water rose to almost two metres in the Pinkas synagogue, the walls of which bear the names of 77,297 Czech victims of the Holocaust, and the nearby Old New synagogue. The contents of the famous national library at Charles University were saved, but many books were badly damaged by the damp.

Besides Prague, dozens of towns in the Czech Republic have also been badly hit by the floods. More than half of the historic centre of Cesky Krumlov was under water. A Renaissance city in southern Bohemia, Krumlov is one of the 730 sites on UNESCO's world-heritage list. In Pisek, another Bohemian town, one of the statues that adorn the oldest stone bridge in the country was swept away; the 13th-century bridge itself was badly damaged.

Lovers of the old and the beautiful are not the only ones to worry about the floods' toll. Ceske Budejovice and Plzen, two towns famous for beer sold under the cities' German names, Budweis and Pilsen, have been badly hit. No more brewing for the moment.

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Germany's labour-market reforms

A plan to put Germans back into jobs

Aug 22nd 2002
From The Economist print edition

The conservatives have rubbished the Hartz commission's proposals—but if they win the coming general election they may well adopt a lot of them

Get article background

EPA

Hartz does his part-time job

"THE greatest labour-market reform since the war", said the chancellor, Gerhard Schröder, as he endorsed the reforms unveiled by Peter Hartz, the Volkswagen personnel director who had been asked by the government earlier this year to write a blueprint to help tackle the country's painfully high unemployment. With a general election only a month away, the opposition has inevitably dismissed Mr Hartz's recommendations as a gimmick, too costly, and irrelevant to Germany's more pressing labour-market requirements. Mr Hartz said that his proposals, if acted upon, would create jobs for 2m of Germany's current mass of 4m unemployed, in three years. Wishful thinking, sniffed Edmund Stoiber, Mr Schröder's conservative rival for chancellor. The whole 343-page report, he said, was "rubbish".

The report does not deal with some of the most glaring causes of Germany's high unemployment, especially its exorbitant labour and social-security costs. But that, explains Mr Hartz, whose 15-strong commission included representatives of right and left, bosses and trade unions, was not its brief. It was set up in February after revelations that the Federal Labour Office had been grossly exaggerating its success in finding people jobs. With 181 regional offices, a staff of 90,000 and a budget of *euro*54 billion ($52 billion) a year, it clearly needed revamping. On that score, Mr Hartz has made some boldly innovative suggestions. Even if 500,000 Germans find jobs as a result, rather than Mr Hartz's hoped-for 2m, some *euro*5 billion a year in benefits could be saved.

The German model to go British?

The commissioners took comparative soundings from half a dozen other European countries. Their aim is to bring the average length of unemployment suffered by jobless Germans down from the current 33 weeks to Britain's 22. Its planned new "job centres", replacing the old labour offices, are modelled on similar British centres, where each job-seeker has a personal case manager; staff who do well putting people into work get financial bonuses.

Though the commissioners do not suggest that out-of-work Germans should "sign on" every fortnight, as British job-seekers do, they propose new ways of pushing people into work. Within the job centres, "personal service agencies" (PSAs) will "employ" jobless people who have already been on the dole for an as-yet-unspecified period and hire them out to private companies as temporary workers. Those rejecting the offer of a job with their PSA would have their benefits docked. Restrictions on "temping" would be loosened. For the first six months, the wages of a PSA temp would be the same as his unemployment benefit; after that he would get the going trade-union rate for his type of work. The idea is to give jobless people some security, while letting the employer fire, and so hire, more freely.

One recent study suggests that only one in two of Germany's unemployed are actively looking for work. To change that, the Hartz commissioners at first wanted to reduce both the size of Germany's generous unemployed benefits and the length of time they can be dished out. At present, the unemployed get 60-

67% of their previous net wage for up to 32 months, falling to 53-57% indefinitely afterwards. But opposition from Social Democrats, the trade unions and even the conservatives, who in Germany have traditionally been as keen on consensus, forced Mr Hartz to drop plans to change that. Still, the sanctions that he does propose will, he hopes, provide a similar stick with which to goad the work-shy into jobs.

If the report passes rapidly into law, as Mr Schröder says it will (though not, for the most part, until after the election), all jobless Germans will have to register as unemployed as soon as they get notice of dismissal—or risk having their benefits docked. Job-seekers may be obliged to work for less pay than in their previous jobs, while young singles may have to travel anywhere within the country to take work. And it will be up to job-seekers to prove that a job is unsuitable, and not—as before—up to the labour office to persuade them that it is worth accepting.

On your bike, then

Critics say that much of this is beside the point, as there are too few jobs to go round. Not entirely so. Two-thirds of employers say they cannot get the staff they need; more than 1m vacancies are unfilled. Moreover, some of the commission's recommendations—encouraging temporary, short-term and part-time work, for instance—would indeed create jobs. So should the proposed domestic “mini-jobs”, where earning up to *euro*500 a month will be tax-free and subject to only 10% welfare contributions instead of the normal 22%. More questionable is a proposed “job floater” scheme, whereby employers in eastern Germany would get state-backed soft loans for hiring the jobless.

Getting people off the black market and into legal work is another Hartz proposal. The millions who work illegally are reckoned to turn over some *euro*300 billion a year, roughly 15% of Germany's GDP. Many of them still take the dole. The commissioners suggest fat tax incentives to help them set up as a small company, described in the report as “Me plc” (Ich AG, in German), by filling in a single sheet of paper. Such workers could earn up to *euro*25,000 a year, taxed at a nominal rate of 10%, while still getting unemployment benefit for up to three years, though they would have to pay welfare contributions.

Despite its recent broad condemnation of the proposals, the conservative opposition's reaction has been shifty. When the gist of Mr Hartz's ideas was first leaked in June, Lothar Späth, Mr Stoiber's designated super-minister for the economy, employment and eastern Germany, welcomed it as “revolutionary”. Now, echoing his boss, he has changed his tune.

If the conservatives get in, expect a further, more nuanced, reaction. Many of Mr Hartz's ideas are in Mr Stoiber's own manifesto. Two-thirds of Germans say they would tip Germany “in the right direction”. Mr Stoiber would surely put his own gloss on many of the proposals; it would be surprising if he did not, in the end, try to adopt many of them.

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The International Criminal Court

Choose your club, America says

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Central Europe torn between the EU and the United States

Get article background

FOR the first decade or so after the downfall of communism, politicians in what was then deemed Eastern Europe breezily insisted that no choice need ever be made between friendships in the new world and the old. Since NATO and the European Union claimed to want roughly the same things—market economics, multi-party democracy, the rule of law—there seemed no reason to favour one club or the other.

Now the dilemma that the Central Europeans, as they prefer to be called, most feared may have arrived: they have been caught in the middle of a growing and ill-tempered dispute between the United States and the European Union, with each side issuing veiled threats to penalise any country that fails to do its bidding.

The row concerns the International Criminal Court, intended to try people for war crimes and genocide, which began functioning in The Hague last month. The EU considers this court a vital instrument of international law. In May it issued an “action plan”, replete with four pages of arcane Euro-jargon, that committed EU countries to support and propagate the tribunal's work in every possible way.

The American administration, for its part, loathes the new court, does not accept its jurisdiction and is intensely concerned—obsessively so, some Europeans say—about the risk of American peacekeepers being unfairly victimised and hauled before judges in The Hague. It has asked each of its allies, including current and would-be members of NATO, to sign a waiver promising that Americans would not be extradited to the court.

So far Romania is the only European country to have done so. Mircea Geoana, its foreign minister, has explained that, as a former ambassador to Washington who knows American politics well, he never remembered coming under such pressure from the United States over a single issue. But his loyalty to Uncle Sam drew a stern rebuke from the EU.

Instead of yielding to America's salami-slicing tactics, present and future members of the Union were told by the EU's bigwigs in Brussels that they should wait, probably until mid-September, when the Union should have fashioned a collective response to America's forceful diplomacy. From the Romanians' point of view, however, it was well worth a reprimand from the Eurocrats: by pleasing the Americans over the court, they may well have secured themselves a firm invitation to join NATO, along with six other countries, at the alliance's crucial summit in November in Prague.

Most of the other Central Europeans, including the instinctively pro-American Poles and Lithuanians, may well heed the warning from Brussels and avoid making a “separate peace” with America. Romania may have gone its own way because the EU, perhaps unwisely, has shown no enthusiasm for embracing it very soon.

What will the eventual pan-European response to America be? Britain, which has worries of its own about peacekeepers in distant war zones, could be pivotal; officials in London are hinting that it may be possible to grant the Americans the waiver they want without violating the new court's statute. British lawyers are poring over Article 98, which stipulates that “the court may not proceed with a request for surrender which would require the requested state to act inconsistently with international agreements.”

The Germans and Scandinavians, notably punctilious in legal matters, are expected to hold out against any watering down of the court's statute. So expect quite a row within the EU in the next few weeks. If a

compromise can be found, the Central Europeans will breathe a big sigh of relief. But it is unlikely to be the last transatlantic row in which Europe's newcomers become embroiled.

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Russia and Chechnya

A calamity, yet no end of war in sight

Aug 22nd 2002
From The Economist print edition

The biggest loss of life in a day shows that Chechnya's war is far from over

Get article background

AP

The military phase is over?

VLADIMIR PUTIN, Russia's president, has often said that the "military phase" of his war against separatist Chechens is over. So it was a bitter blow to lose at least 115 soldiers on August 19th, when a giant Mi-26 helicopter plunged into a minefield near the republic's capital, Grozny. The chief prosecutor, Vladimir Ustinov, said a rebel attack was the "main theory" being probed after Russia's worst loss of life in a single day since Chechnya's conflict resumed in 1999.

But questions are being asked about possible negligence: why was the helicopter—which normally carries about 80 people—so heavily loaded? Inevitably, people are comparing the incident with the explosion on the *Kursk* submarine two years ago which took a similar toll, with official bungling and foot-dragging partly to blame.

As Russians held a day of mourning for the helicopter victims on August 22nd, they looked back on a grim week. A day after the crash, an explosion in a Moscow building claimed eight lives and, though almost certainly accidental, instantly recalled the terrorist bombs that shook Moscow in 1999. The next day a liberal politician, Vladimir Golovlev, was shot dead in a Moscow street. Though there is no obvious link between the incidents, it seems to Muscovites that winter has come early.

Well before the helicopter crash, it was clear the Chechen war was flaring up, not cooling down. On August 15th, guerrillas attacked eight villages simultaneously. Their hit-and-run attacks have been killing a dozen soldiers a week. The rebel president, Aslan Maskhadov, last month signalled his will to fight on by naming an old rival, the fiery Shamil Basaev, to head his defence council. But the separatists, while retaining their ability to harass, are nowhere near to driving out the Russian security forces. The rebels have been depleted by years of war, and the taint of association with Islamic terror has drained world sympathy.

Nor can the fighters count any more on refuge in nearby Georgia. Russia has threatened to make incursions into Georgia's Pankisi Gorge, justifying them by the exaggerated claim that as many as 7,000 fighters may be holed up there. The Americans, who are due to start exercises with Georgia's ramshackle army next week, also want to stop Chechens crossing the border, if only to reduce tension between Russia and Georgia.

Why is Mr Maskhadov, a relative moderate, keen to battle on? Presumably to make the Russians accept that the price of endless war is too high. There are signs that Mr Putin, too, wants to change tack. In June he admitted that the situation in Chechnya was tragic. He may hope to do what the Soviet occupiers of Afghanistan attempted unsuccessfully—to entrench a "loyal" administration while the army pulls back. This time, such a strategy may have a fractionally better chance of working—if only because ordinary Chechens are so weary after eight years of war.

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Charlemagne

Pope John Paul II and the European Union

Aug 22nd 2002
From The Economist print edition

The pope didn't visit Poland to play politics, but he couldn't help it

Get article background

THAT was some mass. A Polish pope conducting the office amid some 2.5m Poles genuflecting as far as the eye could see, at Blonia, the meadow in Krakow where in 1979 he had railed against communism and helped to speed its downfall. And in less obvious ways this was politics too.

It did not look like that. This was a homecoming, perhaps his last, for 82-year-old Karol Wojtyla. He was raised in a nearby town, was ordained into the priesthood in Krakow, then presided over the city as bishop and cardinal before getting the call to Rome in 1978 and emerging as John Paul II. Krakow was for him, he said, “the synthesis of everything Polish and Christian.”

But for the 39m Poles John Paul II is more than a spiritual leader. While, even now, one Pole in two goes regularly to mass, four out of five say they try to follow the pope's example, and others quite outside the church admire him as a patriot. “I have to admit he was right about a lot of things,” confessed Wojciech Jaruzelski, Poland's former communist boss. President Alexander Kwasniewski, an ex-communist agnostic, calls him “one of the most meritorious teachers of freedom in Polish history.” Even the prime minister, Leszek Miller, who served in Poland's last communist politburo and has little time for Catholic smells and bells, was dutifully respectful.

So John Paul's homily at Blonia was required listening across Poland. In fern-green and gold vestments, his hands in spasm from Parkinson's disease, he spoke up for the poor, the unborn, and the terminally ill. But he said nothing at all about the European Union. And that was politics—and bad news for the government. Polish support for joining the EU is flagging and may well fall further still as the negotiators get into the last bone-crunching details with Brussels in the autumn. Well-informed Poles say there is a real chance next year's referendum on the issue could be lost. A clear message from the pope in favour of Poland joining would have carried weight. Blonia was the place for it. Most of those there were working-class people from the countryside; only one in six of the 7m Poles who go on a pilgrimage each year is a city-dweller. And these rural voters are just the ones the government needs to win over to the EU.

Messrs Kwasniewski and Miller failed to coax the words out of the pope. Limply, they re-emphasised his commitment to Poland's EU ambitions, which he had last outlined in a speech to the Polish parliament in 1999. “We are strongly counting on his support in the next stage,” Mr Kwasniewski said. The government's spin-doctors were desperate for any soundbite they could get. Instead, John Paul II denounced the “noisy propaganda of liberalism” which, he said, had cast many Poles into poverty since the collapse of communism. Andrzej Lepper, a firebrand farmers' leader whose populism appeals to Poland's underclass, jumped on this as proof that the pope, like him, is an anti-globalist. The League of Polish Families, a far-right party which fancies the EU to be a communist plot, crowed that it was just what they had been saying all along.

But then it is not the pope's business to satisfy politicians. In Poland, he spoke only glancingly on temporal matters. And he certainly knew just what he was—and was not—choosing to say. His performance over the four-day visit gave the lie to those who say he is no longer mentally capable. He was too frail to kneel down and kiss Polish soil or to light a votive candle at his parents' grave, but that did not stop him cogently evangelising.

He may also have been concerned for the unity of his church in Poland, which is not as solid as its present triumph might suggest. Again, the EU is at issue. Many priests, up to and including cardinals, are

wary of it. “No one take this leaflet, it is propaganda,” bellowed a priest from Lublin through a megaphone to his parishioners at Blonia, after having a pro-EU pamphlet thrust into his hand. The fervour at Blonia sprang from the charisma of John Paul II. But it had as much to do with nationalism, witness the patriotic anthems and flags, as with any new-found deepening of the faith. And the church has troubles weightier than divisions over the EU. Many Catholics in Poland as elsewhere reject Rome's teachings on divorce and even on abortion, let alone its lost war against contraception. The cardinal in charge of the Polish church, Jozef Glemp, is not hugely popular. And the church faces scandals as nasty as those in the United States. A Polish archbishop accused of molesting trainee priests has resigned.

The flight now leaving for Damascus...

In the end, the government got what it wanted. As he was boarding the jet back to Rome, the pope expressed the hope that the Polish nation would “find its due place in the structures of the European Union, and will not lose its identity but enrich the continent.” Joining the EU, he said, would be a “positive aspiration” and a “courageous undertaking”. John Paul II on the road to Damascus? No. He remains sceptical of the EU, Vatican diplomats say. He dislikes the free hand it seems to give member states on abortion, euthanasia or meddling with human genetics, and what he judges to be its materialist foundations. He would like to see an ecumenical religious element in the proposed new European constitution. And in another comment, though not in his set-piece oration at Blonia, he predicted that an EU which refused to acknowledge at least the possibility of a higher spiritual authority would collapse within a decade.

Politically, all that is unpersuasive: even if the EU were minded to aim for, let alone reach, harmony on matters of faith, it would be over temporal issues, such as farm policy, that its future might be imperilled. But the pope is not only thinking of what the EU could do for his country, but vice versa too. With its heavily Catholic population, Poland's influence in social affairs, he can reasonably hope, will be used in ways he would approve of; the church has a better chance of, say, saving unborn children with his beloved homeland inside the EU than outside.

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Food and science

The grim reaper

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From The Economist print edition

Still Pictures

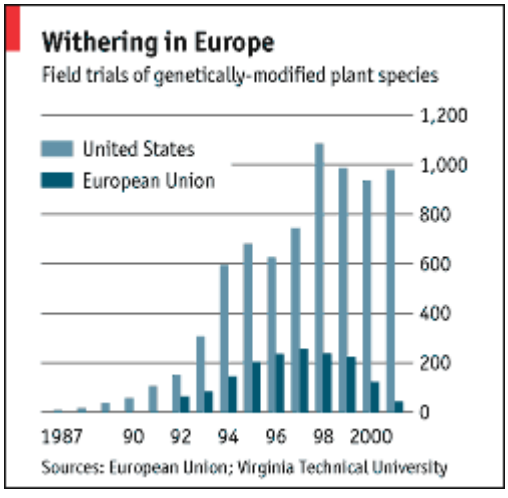
The green lobby has won the GM debate, and the GM crop business is leaving Britain. Which, depending on your point of view, may be a good or a bad thing

Get article background

IT WAS during his trip to India last year that Tony Blair was converted to genetic modification, according to Ian Gibson, chairman of the House of Commons select committee on science and technology. “The Indians were saying how delighted they were that Britain was having trouble with GM, because then they could take over and become masters of the science.”

But Mr Blair's enthusiasm hasn't, so far, had much effect on attitudes in Britain towards GM. Last week there was another GM scare, when it turned out that Aventis, a Franco-German biotech company, had mixed in with a trial of an approved seed a small amount of a variety not approved for use in Britain. Never mind that this variety had been approved all over the rest of the developed world; the media went into its usual spin, talking of Frankenstein foods and Superweeds. The public mostly shares its concerns. According to MORI, a pollster, while 18% of Britons think the benefits of GM outweigh the risks, 39% think the risks outweigh the benefits, and the rest don't know.

That is why the government is launching a public debate next month, with a one-day summit, a public information film and a lot of public meetings. Three years' worth of government-sponsored field trials of GM crops are to be evaluated next year, and the technology's supporters think that, although its opponents have made all the running so far, opinion can be turned around if the public is given enough decent information.



There are any number of theories as to why Britain, along with much of Western Europe, is so hostile to GM when America and most of the developing world are embracing the technology enthusiastically. Maybe it's because Britain is rich and small, and so its people are more concerned about their environment than are people in larger or poorer countries. Maybe it's because BSE has made the public deeply suspicious both of unfamiliar agricultural practices and of reassuring scientific pronouncements.

Maybe it's because GM has become a totem for the anti-globalisation movement, which is stronger in Europe than in America. Maybe it's because organic farmers, an increasingly vociferous lobby which includes Prince Charles, have an interest in seeing off new technologies. Maybe it's because GM is a good excuse for keeping out foreign food. Maybe it's because Europe is right and America is wrong.

Whatever the reason, the consequences of the disparity are showing up. Outside Europe, GM is powering ahead. In 1996, no genetically modified crops were commercially cultivated in America. This year, around 34% of all maize, 71% of cotton and 75% of soya grown in America is GM. Canada, Australia, Argentina and China, among others, are also enthusiastic GM growers, and Indonesia and India have decided to go along with it too. No health risks have been identified, and evidence of the economic and environmental benefits is mounting: according to a paper on GM in China published earlier this year in *Science*, for instance, GM cotton cost three-quarters as much to grow per kilo as the conventional crop, and required only one-sixth as much pesticide.

In most of the European Union, there has been a moratorium on commercial cultivation since Monsanto, an American biotechnology company, tried to launch GM products in the late 1990s and crashed against a wall of hostile public opinion. Research continues, but the economic and scientific consequences that India hopes for and Mr Blair fears are already showing up in research institutes and companies. The number of new GM products being developed in Europe has collapsed. In Britain, the number of field trials is down to four in 2002, from a peak of 37 in 1995.

This is particularly galling for British scientists, because Britain was second only to America in the development of plant biotechnology during the 1980s and early 1990s, and is losing its place to more enthusiastic countries such as China. According to Philip Stott, emeritus professor of biogeography at the University of London, these days there are somewhere between 100 and 130 transgenic scientists working in crop research institutes in Britain. The comparable figure for China is 1,988.

The decline of plant science in Britain is evident in both private and public sectors. Research and development capacity is shrinking. The number of crop-protection research centres has fallen over the past few years from six to one—the Jealott's Hill, Berkshire, research facility of Syngenta, a Swiss-British agricultural biotechnology firm. According to the UK Crop Protection Association, the number of R&D and technical jobs in the business fell from 2,400 to 1,638 between 1986 and 2000. These closures are the result of consolidation in the pharmaceuticals industry, not the consequence of the anti-GM campaign; but the campaign means that jobs in GM, the boom area in plant science, are not being created in Britain.

That is hardly surprising, given the climate. “Fieldwork in the UK is difficult now,” says David Evans, head of research and technology at Syngenta. “Our trials are largely conducted outside the UK. We have had damage on our UK site. We had a stand of transgenic trees, which we were engineering to make them easier to pulp, so you could use fewer chemicals in the process. It was a four-year project. They were debarked. It had a disastrous effect on morale. There were tears.”

The consequence of poor job prospects is being felt in the universities. “We're having big problems employing good graduates,” says Chris Leaver, professor of plant science at Oxford University. “I've been in this business for 40 years, and I'm seriously depressed about the future of plant science in Britain.”

Despite Mr Blair's enthusiasm, government support is declining too. “Funding for GM issues in horticulture has decreased significantly,” says Brian Thomas, research director of crop improvement and biology at Horticulture Research International, a government-funded institute. Scientists put that down to attitudes in the newly-created Department for the Environment, Food and Rural Affairs, where the green lobby, which has a friend in Michael Meacher, the environment minister, is said to have a louder voice than the scientists. “They wish there was no F in DEFRA,” says another government scientist. “The department has turned tail on the whole GM thing.” He estimates that there are 20-30 government-funded scientists working on GM horticulture now, half as many as there were five years ago.

It may be that next year's evaluation of the field trials vindicates the green lobby's objections. But whether it does or not, it looks as though the greens have won and agricultural biotechnology will continue to slip away from Britain. This should worry not just scientists and pharmaceutical companies, but also farmers and taxpayers. Farming in the rest of the world will continue to get more efficient, Europe will import more and more food and the burden of supporting Europe's farmers will increase. And there will, no doubt, be rejoicing in Delhi and Beijing.

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Church music

Discord

Aug 22nd 2002
From The Economist print edition

An unholy row in England's organ-lofts

COLIN WALSH has served as Lincoln Cathedral's organist and choirmaster since 1988. Last month, the cathedral chapter voted to abolish his job and replace it with the new post of director of music. Philip Marshall, Mr Walsh's predecessor, thinks officials are using “underhand methods” to dislodge one of Britain's finest musicians; the real problem, he says, is a personality clash with the precentor, the clergyman in charge of music. Protest letters are flying around; lay volunteers have resigned; Mr Walsh is taking legal advice.

Mr Walsh is not alone in his troubles. Church music, it seems, is becoming a hazardous profession. In the last few years, several other leading organists have been sacked or suspended from their posts; many more have moved abroad. In May, Ripon Cathedral's organist resigned; working with the dean, he said, had become too difficult. Dr Marshall complains that cathedrals have been taken over by “executives, administrators and pen-pushers”, and music is often the first area to feel the squeeze. Many top organists, who make around £20,000 ($30,000) a year, have been forced to take on heavy administrative duties; predictably, some have turned out to be hopeless managers.

John Ewington, general secretary of the Guild of Church Musicians, argues that the problems start in England's theological colleges, which he claims no longer give clergy a proper musical training. Parish churches, he maintains, are even worse off than cathedrals. Many local organists go unpaid, despite the high cost of lessons and music and the hours of practice they put in. Weddings, which used to be a nice little earner, are not the sure thing they once were. Even so, says Mr Ewington, the happy-clappy brigade often wants to run the whole show.

All this is hardly music to the ears of young musicians considering a career in the church; morale, says Simon Lindley, president of the Royal College of Organists, is running dangerously low. Happily, they may have found a champion in Rowan Williams, the next Archbishop of Canterbury, who was once a choirboy himself. In a letter to a supporter of Mr Walsh's, Dr Williams says he wants to examine the status of organists under church law—they currently have none at all—and the funding of cathedral music. That may not save Mr Walsh's job, but it might stop some of England's aspiring church musicians from switching from Handel to hip hop.

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Waste disposal

More rubbish

Aug 22nd 2002
From The Economist print edition

You can't bury it, burn it or recycle it. Getting rid of rubbish is getting harder

“WHERE there's muck there's brass,” as they say. Well, these days, they're wrong. Growth, so devoutly desired by politicians and public alike, generates more and more rubbish. Getting rid of the stuff is more and more expensive, and there are no financial incentives to encourage consumers to cut back on waste.

Municipal waste—mainly generated by households—has been growing by 3% a year, broadly in line with the rate of economic growth. Britons currently dispose of about 30m tonnes of garbage a year.

Until now, Britain has opted for burying most of the stuff. Around four-fifths of municipal waste is sent to landfill sites. This approach has made considerable sense in an island with sites to spare because of its particular geology and a history of quarrying.

But landfill sites are getting scarce, especially in southern England, where most people live. And they are becoming more expensive to run as the government insists on safeguards against environmental hazards like the leaching of toxic waste into underground aquifers. But the biggest constraint on dumping stuff in landfill sites is Britain's commitment to meet European targets to slash the amount of biodegradable waste—about 60% of household rubbish—that is put into landfill sites. These targets are intended to cut emissions of methane (a greenhouse gas) and to reduce the risk of water contamination from landfill. “European targets are the key driver,” says Paul Frith of the Chartered Institution of Wastes Management.

If you can't bury it, an alternative is to burn it. This certainly seemed to be the initial thrust of government thinking during Labour's first term. A programme to build as many as 130 new incinerators was envisaged.

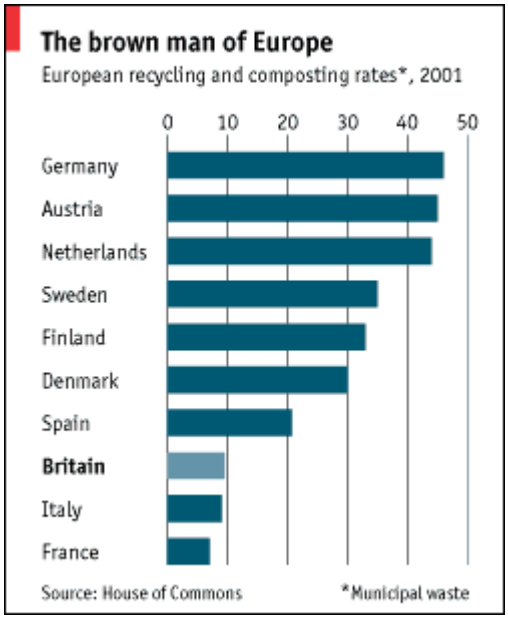
But burning also entails environmental risks. Although new incinerators are now much cleaner than previous ones, people are scared about exposure to dangerous chemicals like cancer-producing dioxins. The political difficulties in selling an expansion of incineration are immense. The government now appears to be backing away from incineration. Michael Meacher, the environment minister, expects that incineration will remain close to its current level of about 6-8% of waste disposal: “incineration remains extremely unpopular,” he said recently.

If you have to bury less and you can't burn much more, another option is to recycle more. There's certainly ample scope to do this in Britain, which recycles (or composts) only about a tenth of municipal waste—far less than most European economies (see chart). The government wants to step up its recycling rate to 25% by 2005, an ambitious target. The Treasury is releasing £140m ($214m) of extra funds to help local authorities finance more recycling.

Recycling appears to be a possible solution, but it can only work if there is demand for recycled materials. The market for recycled metals like aluminium works well, but this is not the case for other materials such as plastics. The government is investing £40m in a programme to find alternative uses for recycled materials and so to promote recycling. But recycling remains the most expensive option, which is why New York's mayor, Michael Bloomberg, announced last month that the city would give up recycling glass and plastic. The case for recycling rests on taking into account wider environmental benefits, such as cutting methane emissions when you reduce landfill.

Even if Britain does meet the government's recycling targets, a gap will remain between the growth in waste and a landfill capacity that will be increasingly constrained by the European targets. The obvious solution is to get households to throw less away. But this will happen only if households and consumers are made to pay directly (rather than indirectly through taxation) for the amount of waste that they generate. Charges can also be used to create incentives for households to separate waste before collection, something that is vital if recycling is to become more cost-effective.

There was a political kerfuffle when a proposal to this effect by the Cabinet Office was leaked in July and the government appeared to back away from it. But plenty of European countries charge for collecting rubbish. It may be politically painful, but the only remaining alternative, incinerating the stuff, is likely to create even more of a stink.



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Positive discrimination

Bending the rules

Aug 22nd 2002
From The Economist print edition

Is it right for universities to discriminate in favour of pupils from state schools?

A UNIVERSITY education used to be the preserve of Britain's middle and upper classes. That has been changing slowly for decades, but the government is eager to speed things up. In his election manifesto, Tony Blair said he wanted 50% of Britain's young adults to have been in higher education within a decade with a large proportion coming from disadvantaged backgrounds.

In order to get universities to comply, the government exerts pressure on them through the Higher Education Funding Council for England. HEFCE sets “benchmark” targets for the proportion of state-school applicants that universities should take, and ranks them accordingly. It is also responsible for the £41m “Postcode Premium” initiative, whereby any university is paid a 5% bonus for every student it takes from a “low-participation” (ie, poor) postcode area. And together with influential private organisations such as the Sutton Trust, HEFCE energetically promotes the access cause in state schools. It recently implemented the “Aimhigher” scheme, for instance, part of a £190m Department for Education and Skills programme to tell children in poor inner-city areas that going to university is a good idea.

As a result of these measures, 16 of the country's best universities, including Cambridge, now offer places to state-school applicants with fewer predicted A-levels than their privately-educated peers. Analysis by the Sutton Trust indicates that 63% of places at Britain's top six universities went to state-school applicants last year, up from 59% in 1999.

Even Oxford, which has got on the wrong side of the government for its admissions policy, is doing pretty well in this respect. More state-educated than privately-schooled applicants were admitted to Oxford for the first time last year—though the proportion, 53%, remains the lowest in the country. The ratio of applications to acceptances was, however, equal for both the state and private sectors, suggesting that there is no bias towards either system in the selections procedure.

Still, Oxford came up short of its HEFCE state-school benchmark, and so did most other universities. St Andrews missed its target by 18%; University College, London, by 17%. Former polytechnics did not perform much better. Oxford Brookes turns out to be just as elitist as its more famous neighbour, having missed its benchmark by 16%.

Proponents of positive discrimination can point to some evidence to support their case. Bristol University's law faculty set up an alternative admissions scheme in 1992 which allows bright students from poor backgrounds to be offered places even if their A-level predictions are not stellar. Many of these students, the university says, have gone on to do just as well as, if not better than, their privately schooled contemporaries. More than 17% of students from state schools at Bristol graduated with a first last year, compared with 11% of the overall intake, suggesting that under existing admissions criteria, the state-school intake is brighter than the independent-school intake.

Critics say that lowering entry requirements merely substitutes arbitrary adjustment for measurable achievement. Alan Smithers, a professor of education at Liverpool University, has argued that pressuring universities to fill social quotas is a bad mistake: students are either patronised or cheated of their rightful places, while universities are distracted from seeking the best students. Others point out that any policy designed to compensate state-school pupils for the failings of their schools can only undermine the government's quest to raise standards in education. Fulminating against elitism at universities such as Oxford and Cambridge is beside the point. Better, surely, to address the problem at the source, by improving the quality of teaching in state schools.

As for parents, the message is clear. Send your children to private schools, and buy a house with a dodgy postcode.

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Oxbridge admissions

It's a scandal

Aug 22nd 2002
From The Economist print edition

Not a perfect system, but not a bad one either

THE chancellor of the exchequer, Gordon Brown, detonated an explosive, silly debate about anti-state-school prejudice at Britain's posh universities when, in 2000, he called Oxford's decision to reject Laura Spence—an outstanding state-school pupil who had applied for a place at Magdalen College—"an absolute scandal". The dust had hardly settled on that one when it emerged last week that another talented state-school applicant to Oxford, Anastasia Fedotova—who, though deaf and not a native English speaker, got six A grades at A-level—had been passed over by Brasenose College.

Magdalen defended itself successfully over its rejection of Miss Spence. Of the five applicants it accepted, three were from ethnic minorities and two from state schools. So much for prejudice. Brasenose may well regret letting the talented Miss Fedotova slip through the net. The Oxbridge interview system is not perfect. Everyone who has been through it has a horror-story to tell. One *Economist* correspondent recalls being asked whether he thought the difference between the absolute and the relative was the same as that between the objective and the subjective—and whether he enjoyed the social side of sport.

But the point of the interview system is that it goes deeper than A-level results, an increasingly devalued and therefore less useful currency. If a flexible admissions policy—the freedom to make an offer on the basis not of exam performance but on first-hand evidence of academic potential—is what the government wants, then the Oxbridge interview system is hard to beat. No other system gives an individual the chance to put his or her best foot forward, in person, in quite the same way.

If Mr Brown is after a real scandal, he might take a closer look at a system (see article) that gives cash rewards to colleges for taking on applicants whose home addresses happen to fall within particular postcodes—such as London's Islington, where his Oxford-educated boss used to live.

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Tories

In deep shit

Aug 22nd 2002
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Iain Duncan Smith is living up to his nickname

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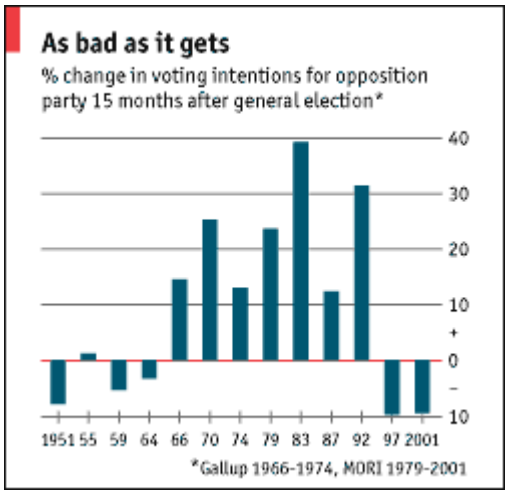
IT IS not surprising that Westminster wags construe the Tory leader's initials as an acronym for “in deep shit”. The party's performance in the polls 15 months after the last election is worse than for any opposition party for half a century bar one. The only consolation for Iain Duncan Smith is thus that his predecessor, William Hague, was doing even worse at the same stage (see chart).

Despair is dangerous in politics. A lack of hope and a dearth of policies has set off a ferocious bout of faction-fighting within the Conservative party, watched by Labour ministers from their pools in Provence with unrestrained glee.



In theory, the row is between the party's traditional wing, which Mr Duncan Smith comes from, and the so-called modernisers, supporters of his beaten leadership rival, Michael Portillo. The latter believe that the party will regain power only if it sheds its overwhelmingly white, male, middle-class image.

But the blood-letting has less to do with political ideology than old hatreds. The Tory party in its current depressed state is an uneasy coalition of interests apparently keener on fratricide than regaining power.

The catalyst for the current row was last month's clumsily-handled sacking of the right-wing party chairman, David Davis, while he was on holiday in Florida. Mr Duncan Smith, who must now be regretting his precipitate action, is said to have taken it on the grounds that the party chairman was idle and was hindering his attempts at reform. But the real reason was that Mr Davis never bothered to conceal his contempt for the direction in which the party was being led.

Lord Tebbit, a former party chairman, whom Michael Foot once memorably described as a semi-house-trained polecat, has now waded into the fray, accusing the “spotty youths” controlling the party's destiny of being obsessed with tactics, spin, image and poll ratings. Lord Tebbit should be a firm supporter but he has become disillusioned by Mr Duncan Smith's attempt to broaden his support among people who don't normally vote Tory—poor people and racial minorities. He was promptly rebuked by another former party chairman, Lord Fowler, who warned that the party had still to learn the lessons of two massive electoral defeats. The most enjoyable intervention into this silly-season brawl came from a Tory grandee, Nicholas Soames, who said that the party would not get anywhere unless it ended its “mad obsession with gays, blacks and women” (who, incidentally, make up something over 60% of the population).

Mr Duncan Smith thus finds himself under constant fire from opposing camps. Almost the only thing the combatants agree on is that he is not making much of a fist of being leader.

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Scottish economy

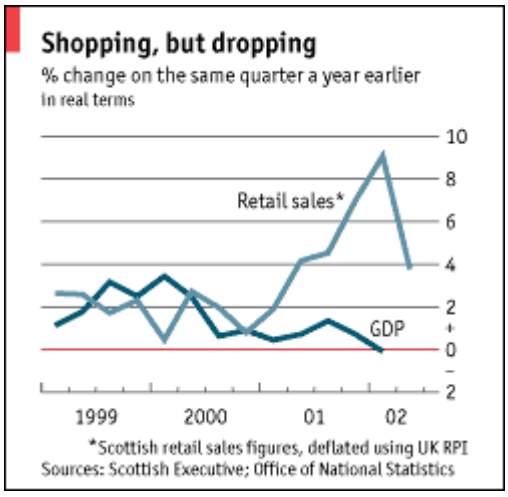
Funny old recession

Aug 22nd 2002 | EDINBURGH
From The Economist print edition

Scotland's economic figures point in different directions

ONE of the wettest summers on record did not stop the Scots from going out shopping. Scottish retail sales rose by 3.4% in July compared with the same month last year, according to figures published by the Scottish Retail Consortium on August 21st. Which is odd, because Scotland is supposed to be in the grip of a recession.

Scotland's downturn (GDP fell by 0.3% in the last three months of 2001, and by 0.7% in the first quarter of this year, while the British economy overall managed a tiny 0.1% of growth in each of those quarters) caused a bit of a storm north of the border. The Scottish National Party demanded that the Scottish Parliament come back from holiday to discuss the recession. The Scottish Executive ignored it, but there was much wailing.



Not that there is a great deal the Scottish Executive can do. Tourism, farming and electronics make up a bigger part of the Scottish economy than the British one as a whole. Tourism was hit by September 11th, farming by the continuing effects of last year's foot-and-mouth epidemic and electronics by the worldwide IT downturn, so the difference in economic performance is easily explained.

There's nothing abnormal about the recession's causes. What's odd is that it is not having the usual effects. Quite apart from shops being as busy as ever, house prices are going up at a steady 8.7% a year, and the banks say there is no noticeable slowdown in mortgage or personal borrowing. “It does not feel like a recession,” says Donald Macrae, chief economist at Lloyds TSB bank.

Oddest of all is that unemployment is not rising. Between July last year and this July, the number of people claiming unemployment benefit (seasonally adjusted) actually fell slightly, from 102,300 to 101,900, even though big electronics firms such as Motorola and NEC fired about 5,500 people during that period. The economy seems to be robust enough for most people to have found other jobs. Of Motorola's 2,600 ex-employees, only about 5% are thought to be still unemployed. Part of the reason is Scotland's booming financial-services industry, which has grown at about 5.5% a year for the past five years. A tenth of former Motorola workers are now in financial services.

The growth of Edinburgh as a financial-services centre may help explain the apparent divergence between statistics and life. In compiling regional GDP figures, all industries are weighted according to their economic importance. But these weights were set in 1995. The financial-services industry is about half as big again as it was then, and manufacturing has shrunk. It may be that because the growth figures understate the importance of financial services, they overstate the gloom. Statisticians agree their figures are skewed and hope to fix them next year. Meantime, doom-laden figures should be viewed with suspicion.

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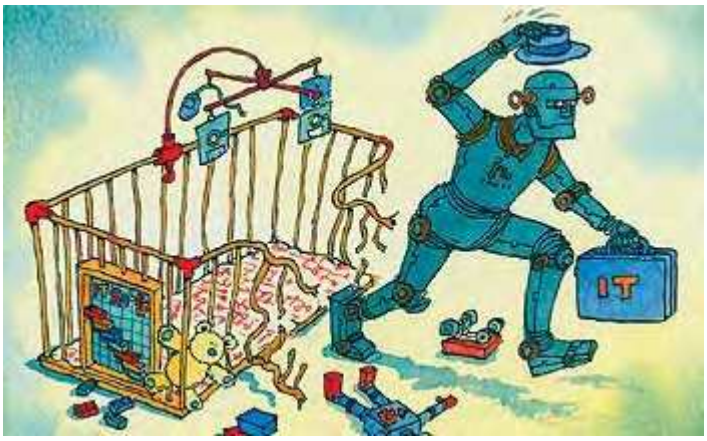
High-tech companies

IT grows up

Aug 22nd 2002 | SAN FRANCISCO
From The Economist print edition

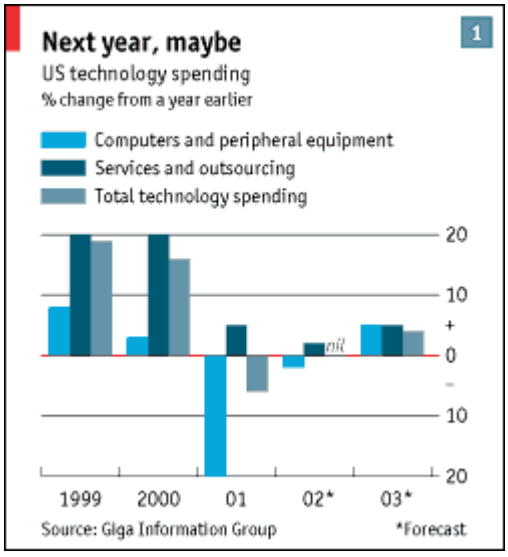


While it waits for signs of a recovery, the information-technology industry is quietly maturing

WAITING for spending on information technology (IT) to pick up has become rather like waiting for Godot. Having grown by 16% in 2000, IT spending in the United States fell by 6% in 2001 and is expected to be stagnant this year (see chart 1). Analysts are fine-combing quarterly results for signs of a recovery. Last week brought some good news: Dell, a computer maker, announced a year-on-year increase in revenues of 11%. But the third-quarter results that HP, another computer giant, is to announce on August 27th will probably be less encouraging.

Hopes for a general bounce-back in the second half of the year have long faded. Even optimists now say that recovery will not come before next spring. When it does, annual revenue-growth rates of 10-13% will be the best-case scenario, predicts Laura Conigliaro, an analyst with Goldman Sachs—half as much as during the bubble years.

In any case, focusing on an uncertain return of good old "new economy" times distracts from the fact that the IT business is undergoing profound changes. And most of these are likely to prove lasting.



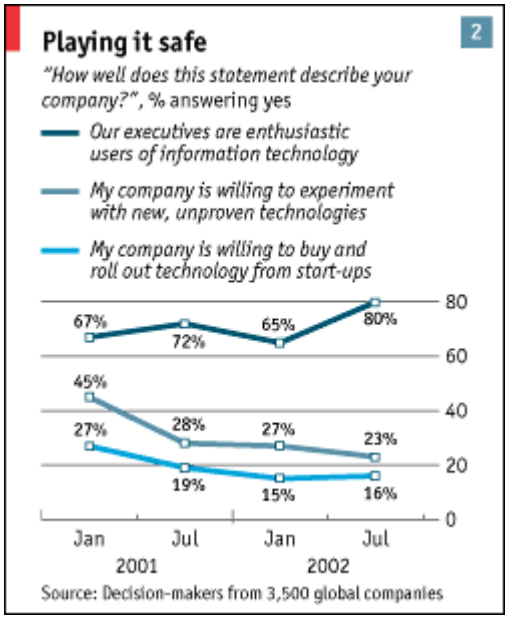
Companies are not only spending much less on IT now, but they are also spending differently. Software vendors, in particular, can no longer depend on quick multi-million-dollar deals, but must work harder to win contracts that tend to be much smaller. More importantly, customer priorities have changed. Rather than buying e-business software or new computers, companies want gear that helps to cut costs, improve security and integrate existing software applications.

No surprise there, perhaps. In times of economic uncertainty, companies prefer small, short-term projects that fine-tune what they already have. The events of September 11th taught IT managers that they must make their systems more secure. And given big companies' current accounting woes, chief executives have gone back to spending more time with their chief financial officers than with their chief information officers—although they have not lost interest in technology, if a recent survey by Forrester Research is to be believed (see chart 2).

This new-found pragmatism is likely to prove lasting. In the 1990s, firms embraced technology religiously—first because they feared that the millennium bug might trigger an apocalypse, then because they were afraid of losing out in e-business. Now that such worries have faded, IT is just one of many tools that companies can use to stay competitive.

That realisation explains why technology investments now face the same kind of scrutiny as other forms of spending. Above all, they have to provide a clearly discernible return on investment. This also suggests that the IT industry—at least its more mature parts, such as hardware—is becoming less of a "growth story" and more like a standard cyclical business.

Perhaps more worryingly for IT vendors, the industry is undergoing a shift in the balance of power between buyers and sellers. Again, it is hardly surprising that buyers currently have the upper hand in the market for computers and software. Nearly two-thirds of IT managers in America think that their ability to command better pricing terms is increasing, according to a survey published last month by Goldman Sachs.



But this change is merely the most visible part of a more profound trend. Traditionally, vendors have driven most big IT markets. They have been, for example, quite successful at locking in corporate customers. Once a company has deployed a piece of proprietary technology—say, an expensive package of enterprise software—it is very costly to switch to another provider. Software vendors can thus milk their "installed base" by selling them one upgrade after another.

IT buyers, however, are increasingly reluctant to play this one-sided game. They are putting pressure on vendors to make it easier for them to link the various bits of their systems. Indeed, the concept of collaborative e-commerce makes sense only if applications have a common language. What is more, vendors themselves increasingly favour open standards as a defensive strategy to neutralise the power of proprietary-minded competitors.

Being forced to do more with less, IT managers are coming to like Linux, the free operating system. Linux and the universe of "open-source" businesses that surround it are one of the few areas of the technology business that is actually growing. Almost a fifth of server computers sold by Dell now have Linux installed rather than Windows. Sun Microsystems has begun offering Linux servers, and might soon add a Linux PC to its product line.

If this trend towards openness continues, the IT industry will probably have to live with lower profit margins than in the past. Either way, argues Steven Milunovich, an analyst with Merrill Lynch, profits will shift away from hardware, which is becoming more and more commoditised, to software, services and consulting. IBM forecasts that these last three will account for 58% of industry profits in 2005, up from 42% in 2000.

All this will have a deep impact on the structure of the IT industry. Firms are following the money—or "moving up the stack", as technologists say. Sun Microsystems, which specialises in high-end server computers, is adding much more software to its product mix. And IBM recently bought the consulting arm of PricewaterhouseCoopers, an accounting firm.

What is more, the big are likely to get bigger. These days, customers prefer buying from well-established vendors with integrated offerings, such as Cisco, the leading maker of networking gear. Being the most efficient vendor, Dell is also gaining market share—hence its good results.

The merger of Compaq and HP, two leading computer makers, is only the beginning of consolidation in hardware. Andrew Neff, an analyst with Bear Stearns, even predicts that, to combat IBM's growing power, Dell, Sun and EMC could forge tighter bonds. So far, there have been few post-bubble mergers and acquisitions, partly because targets consider their shares undervalued—and few are as indebted as their telecoms peers. There are roughly twice as many high-tech companies today as there were in 1995, and only around a third of them are profitable, according to Merrill Lynch.

It does not follow from this, however, that technology itself will come in larger chunks. Because

companies increasingly want to buy modest IT solutions that can be expanded as and when the company outgrows them, the technology vendors that prosper are likely to be those offering “modular” products that can be installed one part at a time.

So will the IT industry in future consist of giants that innovate only incrementally, just like the leading companies in mature industries, such as cars or chemicals? That is unlikely. Shocked by the severity of the technology recession, IT companies are maturing quickly. But technology has a way of surprising the world. It may not be long before some proverbial teenager in a garage invents the next killer application, and gives the industry back at least some of its legendary buzz.

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Softbank

Setting Son

Aug 22nd 2002 | TOKYO
From The Economist print edition

Japan's Mr Internet has struggled to put his house in order

Reuters

Son takes questions, and there are many

SADLY, the bad news may not be bad enough. Masayoshi Son, the Japanese entrepreneur who personifies that country's Internet sector, suffered another blow last week when America's Nasdaq pulled the plug on the Nasdaq Japan stockmarket, a joint venture in which Mr Son's Softbank owns a 43% stake. Softbank can easily afford to write off its ¥1.2 billion ($10m) investment in the two-year-old market; and Japan's handful of tradable tech firms can find other places to list their little-known shares. The more troubling question now is whether the latest failure will prod Mr Son to take a hard look at his fragmented technology empire—before he fritters away the rest of it.

When the technology bubble inflated, Japanese tech shares managed to capture some of the hot air. But unlike in America, where scores of over-rated executives gained fame and riches, Japan's Internet boom-and-bust became indistinguishable from the fortunes of just one man: Mr Son. Indeed, even at the end of 2000, after the bubble had burst and Softbank had lost 90% of its value, *Forbes Global* magazine was still kind enough to name Mr Son its businessman of the year, on the grounds that trillions of yen in paper losses could not outweigh his role as matchmaker between Japan and cyberspace.

Despite Mr Son's frenetic activity on the home front, however, Softbank has made most of its fortune from a few well-placed punts on shares in foreign technology firms. Two of these account for the bulk of his ¥480 billion in unrealised equity gains: Yahoo!, an Internet portal; and UT Starcom, a telecoms business with big investments in China. Yet rather than simply pocketing the cash from these bets, Mr Son has tried to parlay his winnings into an integrated media, Internet and telecoms giant. Together with this full-service Japanese technology conglomerate, he has pursued a scatter-gun approach to venture capital: one of his self-confessed goals has been to help start as many new companies as possible in the hope that some would succeed.

Although Nasdaq Japan's collapse will not by itself undermine the smaller firms in Mr Son's portfolio, it calls attention yet again to the flaws in the venture-capital side of Softbank's business. The original idea behind the new market was to help make initial public offerings more popular in Japan. That would benefit Softbank, by allowing it to cash in on its hundreds of investments in tech firms. The trouble is that, unlike true venture capitalists in America and elsewhere, Mr Son has done little to add real value to the firms in his stable.

Consider Club iT, one of the few firms that Mr Son has already managed to list on Nasdaq Japan. When it teamed up with Rupert Murdoch to launch a Japanese satellite broadcaster, now called SKY Perfect, Softbank set up Club iT through a subsidiary in order to “market” SKY Perfect's subscriptions. The effect was to hive off to the new company the costs of building SKY Perfect's customer base—a move that disillusioned telecoms and energy investors in America will no doubt appreciate. In March this year, Softbank took Club iT public on Nasdaq Japan. A month later, SKY Perfect cancelled the firm's contract, sending its shares down. Mr Son then had to clean up the mess by having Softbank buy back Club iT's shares at the original listing price, swallowing all of the losses.

This manoeuvre was something of an eye-catcher, even by the standards of recent corporate shenanigans in America. Ben Wedmore, an analyst at HSBC Securities and a tireless Softbank critic, summed it up as “a takeover bid of [Softbank's] own company on its own exchange. It had sort of a

19th-century feel to it.”

Realistically, Mr Son's only bridge to the 21st century is Yahoo! Japan, a domestic portal he has built with the help of the American firm. However, instead of simply building up the portal service, Mr Son has also tried to erect a broadband network, through yet another subsidiary, with which to lure more Japanese online. The few analysts who still bother to follow Softbank reckon this is a mistake. The company does not have a convincing strategy for taking on NTT, Japan's dominant telecoms carrier. Moreover, the broadband business's cash is being used to subsidise Yahoo! Japan. Unless Mr Son puts an end to such practices, increases Softbank's focus and straightens out its balance sheet, he can expect plenty more failures.

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Making diamonds from cremated remains

Stones from bones

Aug 22nd 2002 | ELK GROVE VILLAGE, ILLINOIS
From The Economist print edition

For $4,000 you can now wear a loved one on your finger

THE next time someone tells you that diamonds are a girl's best friend, they may not be speaking metaphorically. Those sparkling gems may really be her best friend, or her husband, or even her dog. Life Gem, a small company based near Chicago, has started offering diamonds made from the cremated remains of people and pets. Funeral homes in Illinois, Wisconsin and New York have signed up to market the service to their clients, who can literally have loved ones wrapped around their fingers for eternity.

Life Gem estimates that the carbon from one cremated human body can yield up to 50 stones of varying sizes. With prices starting at $4,000 for a quarter-carat, though, it will not be cheap to add Uncle Harold to the family's jewellery collection.

Although the idea may sound weird, the company insists that it is technically feasible. According to Life Gem executives, an American-owned diamond laboratory in Germany spent three years developing the process of extracting carbon from animal and human bone; turning it into precious stones is the easy bit. The lab's anonymous owner will reportedly produce stones for Life Gem until the company builds its own facility in America.

It may be on to something. A growing number of Americans—about a quarter of those who died last year—are cremated. Life Gem says it is also looking to Japan, where the vast majority of people are cremated, and to the pet market for more opportunities. And if these new markets do not suffice? It could always start competing head to head with Atlanta-based Eternal Reefs, which mixes ashes with concrete and uses the blocks—a “permanent environmental tribute to life”—as coastal reef formations.

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Cable manufacturers

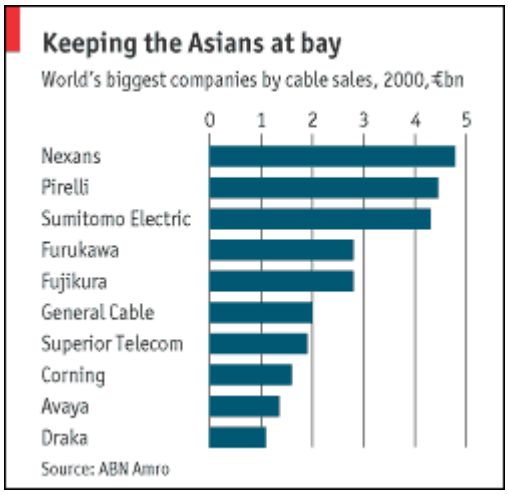
Nifty twisters

Aug 22nd 2002 | LYONS AND MILAN
From The Economist print edition

The Europeans stay ahead in a capital-intensive industry

EUROPE has lost plenty of industries to low-cost competitors, many of them from Asia. But it has clung on to a leading position in the global market for cables—the wires that carry electricity, Internet traffic or telephone calls—despite the existence of well-established Asian rivals. Sumitomo Electric, the world's third-biggest cable maker, was founded roughly 105 years ago. But it is yet to catch up with Nexans, spun off last year from Alcatel, a French telecoms-equipment manufacturer, and the cables division of Pirelli, an Italian industrial group best known for its tyres (see chart).

The overriding reason why these Europeans have been able to fend off Asian rivals is that around 70% of cable production costs are raw materials, mostly copper, which cost the same the world over. Labour accounts for a mere 10% of overall costs. As a result, Europe's producers are all but immune to Asia's biggest advantage: its lower labour costs.



The cable-making business is a demanding one and many companies are struggling. There are three long-term reasons for today's difficulties. The first is that consolidation among telecoms and energy companies has put pressure on prices, as big customers have asserted buying power. A second factor is the current telecoms slump, which has knocked the stuffing out of the previously lucrative market for fibre-optic cables. On top of this comes a capacity hangover from German unification in the early 1990s, when cable makers ramped up production so that infrastructure in eastern Germany could be quickly improved.

Cable makers have responded to relentless pressure from customers for lower prices by innovating. Europe has long led the way in cable technology, thanks to companies such as Câbles de Lyon in France (now Nexans), BICC in Britain and Pirelli. Lyons remains an important site for Nexans, both for its new research centre and a highly flexible manufacturing plant that can produce more than 2,500 different types of cable.

Both Nexans and Pirelli have invested heavily in research and development. Nexans, for example, has more than 500 patents. Research ranges from the pursuit of advanced new polymers as covering for cables, to engineering that makes production systems cheaper. Both Nexans and Pirelli also do research into fibre-optic technologies, the former to plug a gap caused by Alcatel's decision to keep its fibre business when it spun off its other cable operations to Nexans.

Although the Europeans are clear leaders, the global cables market remains fragmented. Gérard Hauser, chief executive of Nexans, reckons the top ten cable makers account for no more than 25% of the industry's roughly *euro*80 billion ($78 billion) of annual sales. For every big firm there are dozens of small, specialist competitors. Take the production of basic electric cable. Italy alone boasts around 250 producers, Europe more than 4,000. China, a growth market, has around 2,000 makers of energy cables.

Although there is no shortage of companies for sale, consolidation is unlikely to happen quickly. One reason is that companies fear repeating past mistakes. Pirelli has struggled in recent years to integrate both BICC and the cables arm of Germany's Siemens. Pirelli took on big debts to buy these rivals, but found it hard to restructure their far-flung operations. Pirelli put its energy-cables business up for sale last year, but failed to find a buyer and is now trying to restore the unit to health.

Mr Hauser says there is scope for mergers, pointing to America as a particularly promising market for deals. With or without consolidation, cable makers face a tough environment. Nexans operates with one-third fewer factories than it owned four years ago and has shed almost 6,000 jobs, or roughly a quarter of its workforce.

Against such a grim background, Europe's big producers can thank a series of lucky breaks for their relative prosperity. Pirelli, for instance, sold its fibre-optic components arm in 2000 at the top of the fibre-optic boom, raising $3.6 billion in cash from Corning, an American rival. Had it not had that good fortune, it might have faced nastier options for its troubled energy-cables business.

Nexans was doubly lucky that Alcatel chose to retain its fibre business. As a consequence, Nexans not only has limited exposure to the collapsed telecoms market, but also has a strong position in copper telecoms cables, a subject of renewed interest among telecoms companies keen to find new uses for traditional cables. Better still, a stockmarket flotation last year left Nexans with a debt-free balance sheet, a rarity among big companies in capital-intensive industries. That should allow the world's biggest cable maker to retain its lead for a while yet.

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Face-to-face communications

Press the flesh, not the keyboard

Aug 22nd 2002
From The Economist print edition

In a wired world, physical presence counts more than ever

AS A young man in the City of London, recalls Sir Martin Sorrell, boss of WPP, a marketing group, he was struck by the magnificence of the partners' room at Hambro's. The bank's top brass sat in a vast hall above Bishopsgate, surrounded by their aides. “There was a lot of noise,” he says, “but everybody knew what everyone else was doing.”

The newish mayor of New York, Michael Bloomberg, began his working life as a trader for Salomon Brothers, and has recreated something similar in his office in City Hall. Officials work in cubicles within a giant, open bull-pen, rather than in private offices. Again, the aim is to free the flow of information. The inevitable conclusion: seeing other people in the flesh is a different, and sometimes better, way to make sure that news and views flow freely than anything that electronics can offer.

One of the mysteries of the wired (and wireless) world is that proximity still counts. In spite of September 11th, and the predictions that everyone would travel less and have fewer meetings, people still want to gather to do deals, to drum up new ideas and to court customers. Indeed, in some ways, physical presence counts even more than it used to. Tony Venables, an economist at the London School of Economics, believes that businesses that thrive on face-to-face communications—or what some call F2F—now account for a growing share of economic activity.

Of course, the arrival of the Internet and of cheap long-distance telecommunications means that lots of activities that once required physical presence can now be conducted online. Customers can pay a bill, book a hotel room or place a bet without walking to the bank, travel agent or bookie. The fall in the costs of undertaking such routine transactions has allowed companies to move them out of expensive city centres to cheaper locations.

But other kinds of business seem to need proximity more, not less, these days. Look at the way the venture capitalists who financed the Internet boom huddle together along Sand Hill Road in Palo Alto; or the clustering of media folk along New York's Avenue of the Americas. “If you are doing a multi-million-pound deal, you need to eyeball them,” says Dame Judith Mayhew, chairman of the policy committee of the Corporation of London. “You don't do that down the line.”

Cities are still highly efficient ways to ensure that eyeballers can see each other. Some trades seem to thrive on density. In a paper recently published by the National Bureau of Economic Research, Sukkoo Kim points out that 40% of American employment is packed into 1.5% of its land area. Those cities that specialise in some services—notably finance, insurance, property dealing and wholesale trade—have tended to pack more and more workers on to the same land, he argues, unlike those that specialise in services such as public administration or retailing.

Why might that be true? Michael Storper of the University of California, Los Angeles, has written a paper with Mr Venables on “Buzz: The Economic Force of the City”. They argue that cities are where information and ideas are developed and swapped. But not all information is equal. Some (a bank statement, say, or a booking) is easily codified and electronically swapped; while some (“I have a deal for you”, “why don't we do it this way?”) requires context and trust to be meaningful. It is the second kind of information that requires F2F.

As a result, many activities are bifurcating. Hollywood film-shooting is continuing to move out of town, for instance, while deal-making, which requires trust and lots of parties, stays in town. And this split does not apply merely to the movie world. Much American manufacturing is going to small and mid-sized cities inland. A typical beneficiary is Memphis, where Federal Express has its hub. The deal-making and design

tends to remain in the big cities of the two coasts.

For individual companies, the key question is when and how to bring people together. Companies with lots of outlets need to keep branch staff in touch with head-office staff. One company that works hard at this is Wal-Mart. The retailer's founder, Sam Walton, spent much of his time tramping round the company's stores. Nowadays, regional and district managers spend four days a week on the road, listening to what store workers are saying.

Even a company such as Oracle, which tries to do as much as possible electronically, finds that it needs regular face-to-face contact. Jim Flynn, its head of corporate communications, brings his regional staff together once a quarter. “It's the only way to work through complicated co-ordination issues,” he says. Moreover, in a global business with different national thresholds for irony and humour, and with English widely spoken as a second language, the Internet can breed misunderstandings if not backed up with regular meetings.

For companies whose lifeblood is creativity, personal contact matters even more. Silicon Valley was born from long nights spent drinking in the now-defunct Wagon Wheel bar in Mountain View, California, where the early geeks and semiconductor executives thrashed out technical glitches together over beers. Big pharmaceutical companies struggle to build into their bureaucracies the sparky communal brainstorming that creates breakthroughs. According to Louise Redmond, head of organisation effectiveness at GlaxoSmithKline (GSK), recent meetings of staff from around the world have revealed gaps in research programmes that would otherwise have gone unnoticed. She says that GSK has increasingly tried to cluster teams working on a particular project on the same physical site.

The need to put the right people together also feeds into office design. At WPP, Sir Martin says, “we're blowing out walls and creating coffee areas.” No longer are accountants and media people assigned to separate floors. Instead, they work side by side in teams to ensure that they keep talking to each other.

As companies try to get more staff to work on the road or from home, they lose the water-cooler conversations that sometimes spark useful ideas. Margaret Exley, chairman of Mercer Delta, a consultancy, argues that some employees, especially in customer services, rarely see their boss's face, even for a performance appraisal. Some sales teams get round this by having regular meetings on the road. One beneficiary of this trend is Starbucks, a coffee chain that is increasingly used as a substitute office. Several stores have even turned spare space into meetings rooms, according to Howard Behar, Starbucks' president for North America.

Companies with scattered staff also often try to bring them together in occasional conferences—and these have become much more intensive, carefully planned affairs. That partly reflects a shortage of corporate cash for jamborees. Ed Griffin, head of Meeting Professionals International, a trade association of meetings planners, says dolefully that finance executives have recently taken over responsibility for meetings budgets from sales and marketing departments. He worries that they may not grasp the extent to which a well-run conference can motivate sales staff. It is, he says, a matter of transmitting emotion, not just facts: “If you do it on a television screen, you lose 50-75% of the ability to create valuable relationships.” If he is right, then companies will need to think even harder in future about how to make those eyeballs count.

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Advertising gaffes

Sticky issue

Aug 22nd 2002
From The Economist print edition

What possessed Cadbury-Schweppes to liken its chocolate to Kashmir?

HERE'S a first: a politically incorrect chocolate bar. The Indian division of Cadbury-Schweppes, a venerable confectionery company, has incensed large swathes of Hindu society by running a newspaper advertisement comparing its Temptations chocolate to the war-torn region of Kashmir. The ad carries the tagline: “I'm good. I'm tempting. I'm too good to share. What am I? Cadbury's Temptations or Kashmir?”. To make sure nobody misses the point, the ad's creators laid the “too good to share” catchline over a map of Kashmir.

The ad has caused a national outcry. Indian politicians, shocked at the very mention of sharing the territory, threatened nationwide protests. It did not help that the ad was timed to appear on August 15th, India's Independence Day. And Cadbury's British roots have made the ad even harder to swallow. After all, it was British colonial rulers who, at partition in 1947, drew the boundary line between India and Pakistan that the two nations have battled over ever since.

Though Cadbury India has apologised, the timing is hardly good. Cadbury-Schweppes is in the process of buying the part of Cadbury India that it does not already own. And Cadbury is particularly sensitive about its image at the moment, since it is considering whether to jump into bidding auctions for Hershey Foods and Adams, two of the choicest confectionery companies to come up for sale in years.

While the gaffe might seem like a gift for the anti-corporate brigade, it actually shows that, even in peripheral markets, multinationals can't hide their blunders for long. And this week, WPP, a marketing giant, gave a warning that the worldwide advertising industry could remain in the doldrums for at least another year. A spot of subtlety might help.

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Face value

Fit for Fiat?

Aug 22nd 2002
From The Economist print edition

Gabriele Galateri hopes to rescue Fiat for the Agnelli family

Get article background

NOBODY doubts Gabriele Galateri di Genola's intimate knowledge of Fiat, Italy's largest industrial group. After all, he has worked since 1977 for the Agnelli family, which founded Fiat over a century ago and still has a controlling interest with a 30.5% stake. During the 1980s, he rose to become group finance director, before moving across the Agnelli empire to run IFIL, an investment holding company through which the family sought to diversify away from car making. He has even been sitting on Fiat's board since 1996.

However, some observers reacted to Mr Galateri's appointment in June as chief executive of the troubled company by asking whether he has what it takes to turn things round. By any measure Fiat represents an enormous challenge. The group has a crushing net debt of *euro*5.8 billion ($5.6 billion) which it is struggling to reduce through a mixture of cost-cutting and disposals. Its car-making division, Fiat Auto, has been badly managed and looks set to lose more than *euro*1 billion this year on top of heavy losses in recent years. Other divisions, such as Iveco (lorries) and Case New Holland (agricultural machines) are also in difficulty in today's weak markets.

This is neither the first time that Fiat has been in trouble, nor the first time that new management has been parachuted in to tackle a crisis. In 1980, for example, Cesare Romiti took charge when Fiat teetered on the brink of bankruptcy. An experienced industrial manager, Mr Romiti rescued the group by brutally restructuring its operations.

Mr Galateri's task is equally daunting. Unlike Mr Romiti, he has no hands-on experience of running an industrial concern. Rather, he boasts an impressive record as a financial manager. At IFIL, working closely with Umberto Agnelli, the younger brother of Gianni, the family patriarch, Mr Galateri increased the initial assets of *euro*775m in 1988 into a portfolio now worth around *euro*3.8 billion.

More than half of IFIL's money is invested in service industries, including retailing and financial services, and less than one-sixth is now tied up in Fiat. Mr Galateri's successful strategy was to invest in non-cyclical industries that would offset the swings in profits that are typical of the car industry.

A personable man, he is intellectually curious and has a reputation as a good listener. His style at IFIL combined financial prudence with active involvement in the management of portfolio companies. An investment in Sanpaolo IMI, Italy's second-biggest bank, where he sat on the executive board, gave him a thorough knowledge of the inner workings of commercial banks.

That should stand him in good stead in his new job at Fiat. The support of its commercial bankers will be vital in the coming months as Fiat tries to reduce its net debt to *euro*3 billion by the end of this year. Paolo Fresco, Fiat's chairman, has publicly acknowledged that there is a fine line between a managed disposal of assets and the “fire sale” that could result from any new financial stumbles. Mr Fresco hand-picked Mr Galateri with the strong support of the Agnellis, presumably trusting in his ability to avoid further mishaps.

Mr Galateri has other important points in his favour. For Fiat, he represents a known and respected quantity, and the group's bankers see him as a credible interlocutor. Recognising that he needs to brush up on industrial know-how, he has already brought in a veteran plant manager to act as his adviser. With his strong record as a portfolio manager, he should quickly grasp whether Fiat's assets can be reshaped into something coherent and financially viable.

There is, however, a world of difference between building a portfolio from scratch and tackling an established set of businesses with deeply entrenched problems. Privately, senior Italian investment bankers wonder whether Mr Galateri is simply too close to the Agnelli family to be able to take the necessary harsh decisions. Despite this, the Agnellis seem genuinely to believe that he represents the best hope for rescuing Fiat.

In typically prudent fashion, Mr Galateri has asked for a few months to figure out a strategy, and has described his challenge as “long term”. In practice, he will have little time to present Fiat's banks with evidence that he is on top of the job. That will certainly include a clear plan to bring losses at Fiat Auto under control, seen by outsiders as a prerequisite for selling the business to General Motors in 2004, as allowed by a put-option agreement made when GM took a 20% stake in Fiat two years ago.

Mr Galateri may be forced to shrink the car business, in what would no doubt be seen as a repeat of the traumatic purge led by Mr Romiti two decades ago. Also to be tackled is Fiat's once visionary, but now struggling, emerging-markets strategy. Big manufacturing operations in Argentina, Brazil and Turkey have been bleeding cash, with no immediate prospects of improvement.

A bigger, better IFIL?

The enormity of the task raises the question of why, at the age of 55, Mr Galateri accepted it. At IFIL, he had a comfortable, even pleasant, position. Indeed, as recently as May he was answering speculation about an imminent move to Fiat by saying he was perfectly happy where he was, thank you. Now he has taken the biggest risk of his career. Was he pressured? Probably he was, but he is too loyal to admit it.

Imagine if he succeeds, however. In effect, he will have created a second IFIL, but on a much larger scale and with much more influence across European industry. Crucially, he will have helped the Agnellis finally to escape the troubled legacy of cars and metal-bashing. His reward would almost certainly be to succeed Mr Fresco as chairman. A pipe-dream? Perhaps, but a reason to accept an otherwise unpalatable position.

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Cleaning up global banking

The repentant banker

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The limits to removing banks' conflicts of interest

FIVE months ago accepted wisdom held that corporate and investment banking could achieve great economies of scale. Banks could get their foot in the door of a company by lending to it at generous rates, with the promise of profitable investment-banking business in the future. As proof that the strategy was paying off, the world's biggest full-service banks, Citigroup and J.P. Morgan Chase, were racing up the capital-markets league tables. The “pure” investment banks, such as Merrill Lynch, Morgan Stanley and Goldman Sachs, were under pressure to get out their cheque books and offer cut-price loans too—and so they did.

The collapse of Enron and WorldCom, and a general credit crunch, have changed the game. Lending has become more expensive, and rightly so, to reflect more closely the risks of companies' defaulting. Meanwhile, investment banking is under powerful public scrutiny: exactly how do these guys, especially not-so-humble research analysts, justify such huge pay cheques? Last week Jack Grubman, once Wall Street's most celebrated telecoms analyst, resigned from Salomon Smith Barney, part of Citigroup, taking $32m of severance pay with him.

New York state's district attorney, Eliot Spitzer, is leading investigations into individual firms—an exercise that is fast turning into a cross-examination of the entire industry. Why stop at research analysts? CalPERS, the pension fund for California's public employees, joined the hunt this week: its board voted to withhold business from bond and equity managers who could not clearly demonstrate their freedom, and that of their analysts, from conflicts of interest. It could cut deeply into the way some financial firms do business.

Citigroup's chairman, Sandy Weill, rushed earlier this month to be the first on Wall Street to embrace Mr Spitzer's proposals. He has also promised that his firm will no longer sell complex financial products to companies that do not fully disclose the effect on their balance sheet (ie, no more special-purpose vehicles to hide the true nature of a firm's indebtedness).

For a moment there seems to be convergence between Wall Street firms, anxious to appear squeaky clean, and regulators and investors demanding more transparency. But how long before this unusual alliance brings tears? Seeking out conflicts of interest in investment banking is like peeling an onion. It could go on and on until there is little or nothing left. Take equity trading. It does not require much digging to unearth potential conflicts of interest at firms with even the purest (that is, the simplest) business. Even that singular man, the so-called specialist on the New York Stock Exchange, trades both for himself and on behalf of clients.

In the wholesale markets for bonds, derivatives and other exotic products, few checks exist to ensure that prices are transparent and that privileged information is not abused. There is a question of perception: one person's synergy (the happy combination of abilities and information) is another person's conflict of interest (ruthless exploitation of privileged foreknowledge). What appeared to be synergy in a bull market, suddenly, in a bear market, looks more like conflict. If all this and more were drawn out into the daylight, precious little would be left of the fabulous returns investment banks and their staff are used to getting.

You'll be sorry

Yet there may be a reason, say investment bankers in their defence, why even the most militant of investors would be unwilling or unable to go so far. Bankers protest that unbundling or putting businesses and competencies into different compartments behind Chinese walls will not suit investors. Unbundling, they argue, is fundamentally uneconomic, and the investor will pay: in terms of the cost of fully independent research; and, still more, in a wider margin between selling and buying securities—because the traded market will be less liquid. Moreover, say investment bankers, most wholesale and investment-banking business is done among professionals able to look after themselves.

Proponents of the model of integrated banking are adamant that it has not been discredited by recent events. The subsidised lending was done largely to firms of good standing that were hardly expected at the time to be caught by a cyclical downturn. J.P. Morgan Chase was hit harder than was Citigroup by concentrated exposure to such firms, partly because it has merely half Citigroup's capital, and thus fewer chances for diversification. It is a blip that does not disqualify the model, these bankers insist. Big banks in general have survived remarkably well since the onset last year of a credit crunch, and have continued to make new loans to cash-strapped companies. Mr Weill said in the past that his bank should have the capital to survive all weathers, and so it has.

Yet a deep-seated problem in the sector must be the presence of too much capital chasing too high a return. Investment banks are still aiming at returns on equity of 20-25%. That might be more attainable if they had less capital, and indeed their falling share prices have done a good job of reducing the problem. But there may, and probably should, be much more slimming to come.

New lessons have been learned in the past few months about diversification and the management of credit risk. Reputation risk (in particular, the risk of being tainted by your customer's lack of honesty), litigation risk and conflicts of interest have moved high up the agenda. Will this lead to a leaner, cleaner financial-services sector?

In fact, one of two outcomes is likely. Either investment bankers and analysts will be back to their old tricks within six months. Or increasing attention will be paid to greater transparency in the raising and allocation of capital. Under the second, more desirable outcome, financial intermediation will aim to be more of a service, less of an ego-trip for the participants, and considerably less well paid. But no one should expect too much. Mr Spitzer and the board of CalPERS have thrown down the challenge. Yet financial markets follow cycles—and that probably goes for the contrition of investment bankers.

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European economies

Double-dip in Germany?

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The ECB's monetary policy is much too tight for Germany

WHY are the euro-area economies so weak, and Germany's in particular? Before the euro was launched, German policymakers fretted that the European Central Bank (ECB), influenced by countries with high jobless rates, such as France and Italy, would pursue a laxer monetary policy than would the old Bundesbank, and so hold interest rates too low. The opposite has happened. Interest rates are currently higher than if monetary policy had been set according to conditions in Germany alone. As a result, Germany's economy has been squeezed.

Germany's GDP grew at an annual rate of only 1.1% in the second quarter of this year, leaving it just 0.1% higher than a year ago. Italy's economy also grew by a paltry 0.9% in the second quarter, but the other two big economies, France and Spain, are expected to show stronger growth. Even so, a recent slide in business confidence has caused many economists to trim their forecast for growth in the euro area in 2002, to around 1%. Germany will be lucky to achieve half that. By contrast, the United States is still tipped to grow by over 2%.

So why does the ECB not cut its interest rate, currently at 3.25%, compared with America's rate of 1.75%? The ECB still frets about inflation. The headline rate for the whole euro area, at 1.9%, is a whisker below the 2% ceiling of the ECB's target, but core inflation, excluding food and energy, is 2.5%. Most economists do not expect rates to be cut this year. This raises two questions. First, are rates currently appropriate for the euro area as a whole? Second, how much lower would they be if the Bundesbank was still setting interest rates to suit Germany alone?

Given the ECB's inflation target of “below 2%”, which can be interpreted as a range of 0-2%, most economists reckon that interest rates in the euro area are about right. But that target is possibly too low. The closer inflation is to zero, the harder it is to get the negative real interest rates often necessary in a recession, since nominal rates cannot go below zero. Research by the International Monetary Fund suggests that, if average inflation targets are set below 2%, then there is a marked increase in the risk that interest rates will hit zero and that deflation may occur. It might therefore be safer if the ECB aimed for a higher inflation target, with a mid-point (not a ceiling) of 2-2.5%. In which case, interest rates ought now to be lower.

Even assuming that rates are right for the euro area as a whole, policy looks uncomfortably tight for Germany. Its inflation rate is only 1%. And, thanks to weaker growth, the country's output gap (actual GDP less trend GDP) is estimated at minus 3%, twice as large as in the rest of the euro area. A way to gauge the appropriate level of interest rates in Germany is to consult the Taylor rule, devised by John Taylor, currently at America's Treasury Department. This calculates the “correct” interest rate according to the inflation rate and the size of the output gap. It suggests that the German interest rate should now be a full percentage point lower than that set for the euro area as a whole.

In theory, if a country cannot cut interest rates, because of monetary union, it should use fiscal policy to support its economy. Yet Europe's stability and growth pact does not allow euro-area governments to borrow more than 3% of GDP (see article). On current policies, Germany's budget deficit may breach 3% of GDP this year. Under the stability pact's rules, that would force the government to tighten policy, further depressing its economy.

From America with love

A popular excuse for euro-area weakness, including Germany's, is that exporters have been hurt by

America's downturn. Yet net exports from the euro area have increased over the past year. It has been weak domestic demand, not external demand, that has dragged down economies. In Germany, exports have been the only source of growth: consumer spending and investment have fallen over the past year.

Even if weak export markets cannot be blamed, the bursting of America's economic bubble has squeezed spending in other ways—through foreign investment, share prices and business confidence. Following a wave of acquisitions in the 1990s, European firms' dollar sales from their American subsidiaries are now four times bigger than their exports to America. America's slump has therefore squeezed parent firms' profits in Europe, forcing them to cut investment back home.

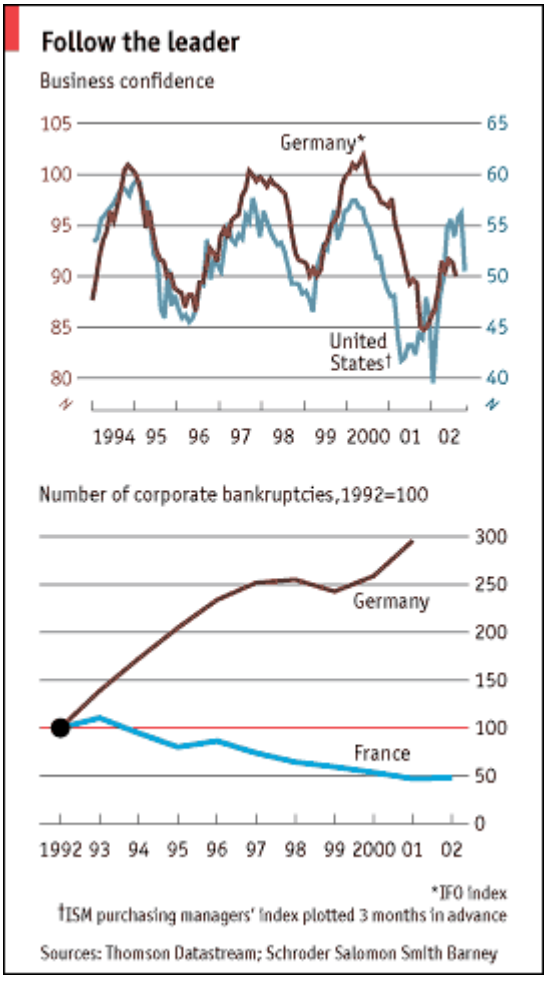
European share prices have also tracked Wall Street more closely than usual—or have fallen further. German equities have fallen by 52% from their peak in 2000. This is more than in other European markets and more than the 40% fall in America's S&P 500 index. Only one-fifth of Germans own shares, compared with half of Americans, so the direct wealth effect is smaller. The indirect effect, through confidence, could be disproportionately large.

In recent years the correlation between indicators of business confidence in America and in the euro area has increased. The mood of European businessmen seems to follow the mood swings of American bosses a few months later. The correlation is closest for Germany (see top chart), where businesses are most exposed to the American market, after buying lots of companies there.

Do European economies have financial imbalances akin to America's? Household saving rates are much higher and the euro area has a current-account surplus, in contrast to America's big deficit. However, Europe is far from being a model of financial prudence. The total debts of non-financial companies in the euro area have climbed, from 47% of GDP in 1997 to 58% at the end of 2001. The debts of American companies also rose sharply, yet are still lower, at under 50% of GDP. Total household debt as a share of GDP is also higher in Germany than in the United States. Slow growth, very low inflation and high debts are a painful combination.

Michael Saunders, an economist at Schroder Salomon Smith Barney, reckons that corporate balance sheets are more fragile than generally assumed, especially in Germany. Corporate bankruptcies in Germany are running at three times their level in the early 1990s; in France they are half their level of a decade ago (see bottom chart).

Many German companies, in other words, look as stretched as do their American counterparts. But, unlike companies in America, German ones have no monetary guardian to rescue them by cutting interest rates. The risk of a double-dip recession, and perhaps even of deflation, might therefore be higher in Germany than it is in the United States.



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Deposit insurance in Japan

Rug not pulled yet

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Another fudge?

Get article background

COMING up with fresh ways to fudge deposit-insurance reform is a hobby of Japanese politicians. A previous two-year postponement, supposed to give the government extra time to clean up the banks, left them weaker than before. Now the government is thinking of breaking its promise to lift its guarantee next April on ordinary deposits of over ¥10m ($84,000). On August 19th, Standard & Poor's (S&P), a credit-rating agency, argued that such a setback to reform could send Japan's rating even lower. Weak banks, says Naoko Nemoto of S&P, would stumble on, frustrating a banking recovery.

Not, of course, that the government is officially considering any postponement at all. Banks, it says, are healthy, and reform will go ahead as planned—except, that is, for one small change.

The change, which a special panel is considering at the request of the prime minister, Junichiro Koizumi, would keep fully protected the current accounts used by big firms and local governments for settlement purposes. So that individuals do not feel left out, new accounts for small depositors would be allowed that also receive blanket protection, but yield no interest. That would be tantamount to halting deposit-insurance reform, critics say.

Getting the scheme to work will be hard, not least because most banks oppose it. Creating new types of account takes time, and is costly. Bankers doubt the accounts could be ready by next April.

The government and banks are also split over who will pay the extra deposit-insurance premiums. Banks are reluctant. Since these settlement accounts offer no interest at all, banks cannot pass the costs on to depositors, in the form of lower interest rates. So they will have to ask for high account-management fees. Banks, especially the weak ones, wonder how many depositors would be willing, in effect, to pay banks to use their money. Banks want taxpayers to foot the bill instead, to which the government is unlikely to agree.

If the aim is to prevent a rash of bank failures—by discouraging depositors from moving their money away from weak banks into safer ones—then it will not work anyway, Brian Waterhouse of HSBC Securities argues. Look no further than Hokkaido Takushoku Bank, which failed in 1997, he says. Although its deposits were fully protected by the government, depositors still fled to bigger banks, or to the postal savings system. This latest scheme is worse, because it will have to require all the banks to act simultaneously. If they did not, then banks offering the special guaranteed accounts would immediately be seen to be desperate—perhaps leading to the runs on deposits that the scheme seeks to avoid in the first place.

With so many drawbacks to his latest suggestion, Mr Koizumi may wonder whether it is worth damaging his reformist credentials even further. Another idea is to extend protection of ordinary deposits, on the condition that banks lower the interest rates on these to zero (from about 0.001% currently), has similar pitfalls. Still, the fudge helps lessen pressure from the old guard in the Liberal Democratic Party. Mr Waterhouse thinks that the prime minister might use the banks' argument that they are having trouble getting their computer systems ready in time as an excuse to keep the safety net in place for another year—all the while insisting that the reforms are still on track.

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World Development Report

Sustaining hope

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Is the World Bank turning Marxist?

STRANGE goings-on at the World Bank. Not long ago, its director for the environment, Kristalina Georgieva, asked her team a question: why care about nature? Given the bank's focus on poverty, she said, the reason was surely its impact on human welfare. After all, as the bank itself has noted, environmental problems such as air and water pollution are the leading preventable cause of health ailments in poor countries. Yet when she made that point, half the audience disagreed. One green staffer even left the room in a huff.

Now comes another apparent sign of heterodoxy. On August 21st the agency published its annual World Development Report (WDR). The theme and timing of this year's report coincide with the United Nations summit on sustainable development, which starts in South Africa on August 26th. If the World Bank seemed a shade green before, a casual reader might think it has now turned positively red.

For a start, the report suggests that economic growth, long seen by liberal economists as the surest route to poverty alleviation and environmental improvement, is not enough. It explains that sustainable development is “about enhancing human well-being through time”, which means helping people to improve such things as their “sense of self-worth” and not just their net worth.

The WDR also rejects the view that despoiling nature is an unavoidable yet reversible companion to economic growth. Environmental problems are, “at their root, social problems. The distribution of assets, and of the costs and benefits of different policies, as well as the role of trust, are all critical to the ability of societies to develop competent rules and institutions to address environmental, social and economic problems.” The report argues that the “poor and disempowered” must have much greater access to assets if growth is to be sustainable and the world is to avoid social unrest.

So does the WDR really add up to a neo-Marxist call for the redistribution of assets? Not at all, insists Zmarak Shalizi, its lead author: “Our arguments are grounded in neoclassical economics and game theory.” He notes that his team defines a society's assets as including far more than merely land, labour and capital. Property rights, the rule of law, transparency and even trust count, too.

Besides, Mr Shalizi argues, these assets are already being “appropriated” in many societies by powerful individuals, governments, firms or bureaucrats. That explains why otherwise sensible policies—including ending environmentally damaging subsidies—are often thwarted. “The benefits of such policies are often dispersed, but the costs concentrated, so the policies get captured by a few.” Strong institutions must compensate for this, he insists.

The bank argues that its emphasis on asset allocation need not provoke a backlash from fat cats: future economic growth will create plenty of new assets to spread around. Over the next five decades, the authors reckon, world output could quadruple, to $140 trillion, and the world's population rise to 9 billion, with humans a chiefly urban species for the first time in history. To most of those heading for the summit, this will sound like a nightmare. Yet, while acknowledging the pressure this will put on the planet, the WDR authors insist these trends could be good news too.

For a start, they note that the real news on population is that its growth rate is moderating. As a result, the coming years will see a boom in people of working age. Mr Shalizi adds that economic growth deriving from this will create an enormous stock of new assets that can be shared with the world's poorest. Even the migration to cities can be positive, for it means the poor can share in the new jobs, educational opportunities and housing stock to come.

All this, the WDR reckons, adds up to an opportunity to make growth more inclusive and sustainable. That is a surprisingly hopeful stance, given that sustainability gurus are usually a gloomy bunch. The summiteers in Johannesburg could do worse than to read this report.

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South African fraud

Scam of scams

Aug 22nd 2002 | JOHANNESBURG
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How to impersonate a central bank

IF YOU must tell lies, tell very big ones. Last week a gang in Johannesburg were caught telling a whopper: they were masquerading as South Africa's central bank. African con-artists, mostly from Nigeria, have long run a racket known as the “419” scam, or advance-fee fraud. Gullible types overseas are persuaded that great piles of cash stolen by an African general, warlord or minister are mysteriously available. The victims are asked to store the money in their bank account, in return for a share of the loot. But first they must pay a few thousand dollars—to cover expenses, you understand. Each year, amazingly, thousands of credulous victims pay out, with never a cent in return.

Such scams have become two-a-penny, partly because red-faced victims rarely come clean to the authorities. But as Nigerians earn a reputation for dodgy deals (the 419 racket is named after the number of the Nigerian law that forbids it) con-men are moving to southern Africa. One group recently sought partners to “share” in millions of dollars of the late Jonas Savimbi, the Angolan rebel leader.

The latest swindlers set up a website purporting to be that of the South African Reserve Bank. They e-mailed folk in Britain and America to say that money could be siphoned from the bank to their own accounts. Doubters could double-check names, photos and mobile-phone numbers online, and visit an accompanying (and also fake) website of a law firm to draw up legal documents. Of course, the victims were also told to send “facilitation payments” to anonymous bank accounts, and to keep quiet about the deal. Many people are reckoned to have sent money. One Briton alone, says Sipho Ngwema, of the police investigating team, was defrauded of 2m rand (about $200,000).

South Africa worries that such scams will sully the country's name. The finance minister, Trevor Manuel, wants a call-centre set up by September, so that investors can check on local businesses without relying on websites. That should help against pyramid schemes and fly-by-night operators, but it will not guard against scams that depend upon victims' complicit silence. Next time that Savimbi's daughter or Mobutu's cousin e-mails you with a promise of riches, press delete.

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Economics focus

The case for co-operating

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Europe's stability and growth pact is producing perverse results

AS THE River Elbe burst its banks this month, the German government's budget deficit threatened to breach the limits of the euro area's "stability and growth pact". The pact prohibits fiscal deficits above 3% of GDP. Except in severe recessions, they can attract a fine of up to 0.5% of GDP. Germany now has a deficit of 2.8%. This week, Gerhard Schröder, Germany's chancellor, delayed popular tax cuts in order to be able to dispense flood aid without violating the pact. With an election coming up, this is a political embarrassment. Portugal, which admits to a fiscal deficit in 2001 of over 4%, already faces the prospect of punishment. Conceivably, France and Italy may also test the limits of the pact before long.

A decade ago, the pact's architects, most of them German, feared that the euro's credibility might be undermined by fiscal laxity among its members. If a government's borrowing becomes unsustainable, its central bank might be forced to bail it out, inflating away the real value of its debts. Such bail-outs are expressly forbidden in the euro area, while the European Central Bank (ECB) enjoys a forbiddingly strong position relative to national-level fiscal authorities.

Prudent or not, the euro area's 12 finance ministers remain accountable for their fiscal choices. If they court insolvency, financial markets will apply a risk premium to the government's bonds, or refuse to lend to them altogether. Why should the European Commission try to police sovereign borrowing when the markets already do so? If anything, monetary union calls for granting more fiscal discretion to national governments, not less. Having ceded monetary policy to the centre, member nations have greater need of fiscal flexibility to cope with problems that afflict them at home.

Germany is a case in point. If it were still in a position to conduct its own monetary policy, interest rates would now almost certainly be lower. Meanwhile, a weak German economy probably needs precisely the kind of tax cuts that Mr Schröder was forced to shelve this week. In other words, the pact's "excessive deficit procedure" looms large at precisely the moment it will do most harm. Germany may yet escape fines, by invoking a special exemption for events beyond its control—observing the letter, if not the spirit of the pact.

The pain of solitary punishment

The pact may be flawed, but the euro area still has fiscal problems which its members need to address. Between 1990 and 1996, the future euro-area members ran an average deficit of well over 4% of GDP. Stronger economic growth, along with the tough rules of the stability pact, have since forced that figure down, to 1.5% on average. But now that "Maastricht fatigue" may be setting in, those deficits may widen again. Euro-area government debt stands at 72% of GDP, a deal higher than the 60% figure the Maastricht treaty deemed sustainable. Many European governments face hefty pension liabilities in the near future. If Europeans are serious about putting their budgets in order, they will need to undertake long-term fiscal reforms. Is it better that they do so singly, as and when the pact forces them to, or together, as part of a collective effort?

Christopher Allsopp and David Vines of Oxford University, together with Warwick McKibbin of the Australian National University, argue against going it alone*. Budget cuts are never painless, but within a monetary union individual cuts can be excruciating. A country with an autonomous monetary policy can offset tighter fiscal policy by expanding credit and devaluing the exchange rate. But in a monetary union, where an individual country can no longer cut interest rates, nothing cushions the blow.

The authors asked what would happen if France were to cut its budget deficit unilaterally, by 2% of GDP. According to their simulation, French output would fall by more than 2%. Prices would fall a bit in France, but across the euro area as a whole they would barely change. So the ECB would have little cause to cut nominal interest rates. As a result, the real rate of interest—nominal rates adjusted for inflation—would actually rise in France. Output would eventually recover, but not before a recession of up to three years.

What if France agreed with the other member states to cut deficits together? Surely, a synchronised contraction would be even more damaging, as each country's recession spilled over into its neighbours' economies. Possibly, the authors acknowledge. Yet, while the ECB might not respond to a slowdown in one country, fiscal austerity in all 12 euro countries would probably force it to cut rates, so bolstering private spending even as government spending falls. A rate cut would also weaken the euro, boosting exports.

Investors might provide another cushion. Collectively, the euro area accounts for a big share of the demand for global savings. As they reduced their claims on these savings, Europe's governments would take pressure off the world's long-term real interest rates, boosting share prices and “crowding in” private-sector investment.

If fiscal reforms are undertaken jointly, the short-term sacrifices may be surprisingly light, and the long-term benefits may arrive surprisingly early. Such a happy outcome hangs upon pursuing reforms that are both credible and co-operative. It is a pity, then, that Europe's stability and growth pact, as it stands, is neither.

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* “Fiscal Consolidation in Europe”, by Christopher Allsopp, Warwick McKibbin and David Vines, in “Fiscal Aspects of European Monetary Integration”, Cambridge University Press, 1999.

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Biotechnology in Singapore

Send in the clones

Aug 22nd 2002 | SINGAPORE
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Will a relaxed attitude to regulation make Singapore the stem-cell-research capital of the world?

Get article background

A YEAR ago, when George Bush was ruling on the future of human stem-cell research in America, no Singaporean university even taught advanced cellular biology. There was only one prominent researcher studying stem cells in the whole of the country—and his work was going to waste. Ariff Bongso, the scientist in question, was the first to isolate human stem cells (whose function is to turn into other types of cell and which may thus, some hope, be used to regenerate damaged organs, or even to clone existing individuals). He did so in 1994. But Dr Bongso did not patent his technique, allowing American colleagues to steal a march on him.

Now, the boot may be on the other foot. In August 2001, Mr Bush placed restrictions on federal-government funding for research into human stem cells because of ethical concerns about cloning and abortion (aborted fetuses are a good source of stem cells). Moreover, Congress is debating legislation that would further restrict stem-cell research, regardless of where the money comes from. The pace of research in America has slowed markedly as a result—and the government of Singapore has seen an opportunity. By turning itself into a “regulatory haven” for stem-cell research, it hopes to attract disaffected scientists who feel their freedom to investigate is compromised elsewhere.

Giving safe haven to stem-cell researchers is part of a wider government policy. In 1999, life sciences, ie medicine, pharmaceuticals and biotechnology, were designated one of the country's four “industrial pillars”. The idea was to build a “knowledge economy” which would continue to generate growth long after traditional industries such as petrochemicals and electronics had fled to cheaper places. The only hitch was that Singapore had few companies, research facilities or personnel with any experience in the field.

But what Singapore's rulers want, they usually get. Within the space of two years, they have set up two new university faculties and five new research centres, and funnelled S$3 billion ($1.7 billion) into a series of funds designed to promote research, attract international life-sciences firms and finance local biotechnology businesses. The first phase of one-north, an industrial-cum-research-cum-theme park (itself a novel combination of ideas) that will cost S$15 billion, will open next year. The timetable for bringing all this into being was so tight, according to James Tam, an American academic recruited as dean of one of the new university faculties, that he had to start interviewing potential professors the day he arrived in Singapore, having read their applications on the plane over.

Recruiting big names has been an important part of Singapore's efforts to lend credibility to its biological ambitions. Alan Colman, the head of the team of researchers that cloned Dolly the sheep in Scotland, has just joined ESI, an Australian firm lured to Singapore by government funding. Edison Liu, until recently a leading researcher at America's National Cancer Institute, is now the head of Singapore's new Genome Institute. Yoshiaki Ito was poached, complete with his research team, from Kyoto University, to join the Institute of Molecular and Cell Biology.

Gene sling

The main draw for such luminaries, apart from the rock-star status accorded them by the local press, is Singapore's permissive climate for research. For example, the government actively encourages work on stem cells rather than grudgingly permitting it. It also allows cloned embryos to be kept for up to 14 days. No country goes further than that. Just as important, it takes little time, paperwork or glad-handing to get approval—and generous funding—for research proposals, according to Dr Tam.

How quickly—if at all—such licence and largesse will turn into products remains to be seen. Dr Colman is planning to work on inducing stem cells to turn into insulin-producing “islet” cells, which could be implanted into diabetics. Some of his colleagues at ESI want to turn them into nerve cells to replace those lost in Parkinson's disease. These are plausible ideas, but will take years to come to fruition.

A possible straw in the wind is that earlier this month, Dr Bongso managed to solve a problem that could have bedevilled future stem-cell therapies. At the moment colonies of human stem cells have to be grown on layers of tissue derived from mice. This technique carries the risk that viruses present in the so-called “feeder cells” might jump into the stem cells. That would prevent such cells being used therapeutically, because they might carry the infection to the patient. Dr Bongso, however, has managed to derive feeder cells from human tissue, and this time, he has been sure to patent his invention.

But turning that patent into applied medicine—and profits—will require the input of investors and managers as well as researchers. Furthermore, Singapore is not known as a febrile crucible of ideas and innovation. It can import academic grandees, just as it has foreign firms, but that might not prove enough to spark the creative “buzz” of a successful economic cluster. The government's efforts to generate such an atmosphere by decree only serve to underline how paternalistic it remains. One of its many glossy pamphlets, for example, gushes about a “live-work-play environment that will create a unique DoBe lifestyle” (whatever that may be). It depicts young, good-looking, racially diverse scientists playing trombones, sipping fruity cocktails and walking barefoot in the park. But, as the same brochure cryptically points out, “Innovation does not occur where it is supposed to.”

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Tropical agriculture

Trees of life

Aug 22nd 2002 | BERKELEY, CALIFORNIA
From The Economist print edition

A new twist on an old idea is improving farm yields in Africa

SOUTHERN AFRICA is currently facing its worst food crisis for more than a decade. Around $500m-worth of aid is thought to be needed to feed the millions at risk of starvation. In that part of the world, and in Africa more widely, a large obstacle to food production is the poor agricultural yield that results from over-use of the land. With manure in short supply in many places—and artificial fertilisers beyond the means of most—it is impossible for nutrient-drained soils to be replenished with nitrogen. This helps to explain why Africa south of the Sahara is the only region of the world where food production per head has remained stagnant over the past 40 years.

Out of the woods

Earlier this month, Pedro Sanchez, head of the International Centre for Research in Agroforestry (ICRAF) in Nairobi (and also a visiting professor at the University of California, Berkeley) was awarded the World Food prize for his research into low-technology methods for improving soil fertility. The key to restoring fertility is to sow legumes. The roots of these plants harbour bacteria that are able to extract nitrogen from the air and turn it into soluble molecules. Legumes use these molecules to make proteins. Plough the legume back into the soil and the nitrogen becomes available to the next crop.

Crop rotation using herbaceous legumes such as clover and alfalfa is standard practice in many parts of the world. Dr Sanchez's insight was to realise the advantages of planting leguminous trees instead. Herbaceous legumes have to be grown alternately with the primary crop. Trees, by contrast, can be planted at the same time, and have their effect before the following growing season.

This is how it works. At the beginning of the rains, both food crops and leguminous trees are planted. Because the trees initially grow slowly, there is little competition between them and the crops. In the dry season, though, after the crop has been harvested, the trees shoot upwards and reach three metres in height in eight months. During this time, trees drop their leaves, providing nitrogen-rich mulch, and they are then cut and harvested for poles or firewood. When the next food crop is planted, it benefits from the nutrients and improved physical properties of the soil that the trees have provided.

Dr Sanchez and his colleagues at the ICRAF tested 15 different species of leguminous tree, and found that the best of them will add between 100kg and 200kg of nitrogen per hectare during the course of a year—about the quantity that maize farmers add as artificial fertiliser. Using this system, crop yields go up dramatically, from one tonne to four tonnes of maize per hectare in a good year, and from zero to a tonne in a drought. A further, and unexpected, benefit of the system is in weed control. Crops are often damaged by witchweed, a widespread crop parasite that usually germinates after a cereal crop is planted. However, secretions from the trees' roots stimulate the germination of the witchweed seeds before crop planting. With nothing to feed on, the witchweed then dies, leaving the field clear for the next sowing season.

Convincing farmers to adopt new methods is always a challenge, but between 50,000 and 100,000 people in eastern and southern Africa are thought to be using the technique already. This is a good start, but it is only a fraction of the millions who might benefit. To reach those millions, says Dr Sanchez, would cost $100m over the next decade. That would be excellent value for money—and certainly better than food aid.

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Computer interfaces

No-touch typing

Aug 22nd 2002
From The Economist print edition

It is now easy to type by eye

HOW many fingers does it take to type? Ten, for the secretary trained to do it by touch. The keyboard clatters. Two, for the executive who never quite got to grips with computers. Tap, pause, tap. None, for anyone using Dasher. Look, no hands!

Dasher is a text-input program that works by predicting which letter is most likely to come next in a piece of text (and also the second most likely, third most likely etcetera). It then presents the possibilities to the typist on a screen. The typist chooses one, which is added to the growing text, and the program presents another set of choices. And so on.

Dasher's most recent incarnation, reported in this week's *Nature* by the program's originators, David MacKay and David Ward of Cambridge University, can literally be controlled by eye. A camera mounted next to the computer screen measures light reflected from the eyes. It works out which direction they are pointing and therefore which letter they are looking at, and transmits this information to the computer. After an hour's practice, typists can achieve a respectable 25 words a minute. So people such as quadriplegics, who have control only over their eye-movements, can communicate quickly and comfortably with a computer.

Dr MacKay and Dr Ward are not the first to try to replace the conventional keyboard, but they are perhaps the first to find a solution that is so much fun to use. The letters line up on the right-hand side of the screen in alphabetical order, top to bottom. Move the cursor towards them and they start to stream forwards, jostling and crowding. A letter is selected by steering the cursor into the coloured box that contains it. Within that box another set of letters then appears. The cursor moves ever deeper into the nesting boxes as letters are strung together. Not every letter is equal, however. Some loom large and appear at the centre of the screen while their neighbours are squeezed into tiny spaces.

This happens in response to a mathematical model that looks at the previous five characters in order to predict what might come next. Then it makes the most probable letters bigger so that they are easier to get to. The model knows nothing about English and does not even understand the concept of words. Instead, it uses statistical information gleaned from a training text (Dr MacKay used Jane Austen's "Emma"), to which it adds each time the program is run.

Dasher could make a significant difference to the small group of disabled people who can neither move nor talk. However, a much larger group, including everyone who owns a mobile phone, pocket computer or other gadget too tiny to accommodate a keyboard, might find it makes life more convenient. The program could be put into these devices and operated with a mouse, tracker-ball or stylus, instead of an eyeball. Dasher could also compete with the speech-recognition packages used instead of keyboards by those with repetitive-strain injuries.

Because it learns as it goes, the program can adapt to the vocabulary and style of its owner. Dr MacKay suggests that different versions could be marketed. "Yoof culture" for mobile phones perhaps, and "pompous novel" for the aspiring author. The software can be downloaded free at www.inference.phy.cam.ac.uk/dasher.

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About sponsorship

The CONTOUR mission

A bad break

Aug 22nd 2002
From The Economist print edition

Another spacecraft seems to have gone AWOL

HOPES are fading fast for NASA's cometary exploration mission, CONTOUR. The spacecraft, which cost America's space agency (or, rather, the American taxpayer) $159m, was launched on July 3rd. Unfortunately, since an engine “burn” on August 15th, which was intended to launch it out of earth orbit and on its way, CONTOUR has been silent.

Comets interest astronomers because they are unaltered leftovers from the formation of the solar system, and may thus provide evidence that distinguishes between the various theories of that system's origin. CONTOUR was designed to carry out the closest flypast of a comet so far, and also to perform chemical analyses of at least two very different types of comet.

The silence is ominous, although past spacecraft have sometimes shut up unexpectedly, and then resumed contact. More worrying is that, since August 16th, telescopes have shown two objects travelling in the spot where CONTOUR ought to be. This has led to speculation that the craft broke up when its rocket motor was fired.

If CONTOUR receives no commands for 96 hours it is programmed to contact earth by itself. If that does not happen, the Applied Physics Laboratory at Johns Hopkins University, in Maryland, which is managing the mission for NASA, has said that a final effort to get in touch will be made in December when the craft's antennae will (if it has taken the path it was supposed to) be in a more favourable orientation.

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Preventing malaria

Another jab

Aug 22nd 2002
From The Economist print edition

A new malaria vaccine is being tested in the Gambia

Get article background

MALARIA affects more than 500m people a year, and kills 2.7m of them. Three-quarters of those fatalities are children under five. Over the past 35 years, the disease is thought to have cost Africa alone $100 billion in lost GDP. Yet, while powerful anti-malarial drugs and anti-mosquito compounds exist, a vaccine remains elusive. With luck, that will soon change. For this month a radical new design of malaria vaccine started its field trials.

All existing vaccines, for all diseases that can be vaccinated against, work by stimulating the production of antibodies (protein molecules that recognise, lock on to and disable invading viruses, bacteria and other parasites). Antibodies are an important arm of the immune system, but are not the only one. Another arm works by recognising and destroying infected cells, and it is this that Adrian Hill and his colleagues at Oxford University hope to encourage with their vaccine.

The malaria parasite has a complex life-cycle. After someone is bitten by an infected mosquito, the parasites first infect his liver. After a week, they break out of the liver cells that they have been breeding in and enter the bloodstream. Finally, they develop into a form that can infect other mosquitoes that bite the victim, thus restarting the whole process.

Vaccines that stimulate antibody production have proved ineffective against malaria. The stimulated antibodies are unable to deal with the parasites when they encounter them in the bloodstream, because at this stage of their life-cycle malarial parasites express a confusing array of different genes. To overcome the confusion, Dr Hill's vaccine is designed to provoke attacks on parasites when they are in the liver. Instead of stimulating the production of antibodies, it stimulates cytotoxic (ie, cell-killing) lymphocytes, or CTLs.

The active part of the vaccine is DNA cloned from the parasite. Two shots are needed. The first consists of “naked”DNA, and the second of a harmless virus that has had the cloned DNA added. The result, in both cases, is that the cloned DNA is translated into fragments of parasite protein that the CTLs can learn to recognise. Then, when such primed CTLs come across infected liver cells (which have the same fragments on their surfaces) they recognise the infection and kill the cell.

The new vaccine has undergone preliminary trials on 70 volunteers in Oxford. These tests showed partial but significant efficacy against a “high-dose challenge”, which involved giving participants five bites from heavily infected mosquitoes. That is not ideal, but it is better than nothing. Also, the CTLs that resulted from the vaccine hung around (and presumably provided protection) for more than a year. The vaccine has not, however, previously been deployed in a malarial area.

The tests now starting, which are being carried out in the Gambia, involve 360 adults. Half will be given the new vaccine and the other half a rabies shot (which has the virtue of providing useful protection against a disease endemic in the area, rather than being a mere placebo). The subjects' health will be monitored during October, November and December, the country's malaria season. If the results are positive, the team hopes for a usable vaccine within a decade.

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About sponsorship

American civil war

It led to total war

Aug 22nd 2002
From The Economist print edition

Getty

A master American historian reflects on the contingencies and unforeseen consequences of a single terrible battle

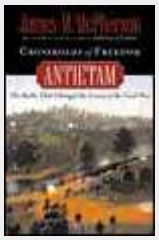
IT IS a great counterfactual question about the battle of Antietam, where more than 6,000 Americans died on September 17th 1862, the bloodiest single day in American history. The battle was a turning point when the war between North and South could have gone another way. What might have happened if the balance that day had been reversed and George McClellan's union army—not Robert E. Lee's confederate troops—had been the ones too scattered to fight?

James McPherson, a historian at Princeton and one of the leading authorities on the American civil war, is in no doubt of the answer. On learning of his opponent's disadvantage, the southern commander would have had his swiftest soldiers, Stonewall Jackson's “foot cavalry”, on the march within the hour, with the dependable James Longstreet not far behind.

As it was, the over-cautious McClellan procrastinated although he had almost twice as many men as his foe. Through an astonishing series of lucky accidents, a verifiable copy of Lee's campaign orders had come into his hands. These revealed that his adversary had split his much smaller army into four widely separated parts. McClellan nevertheless took 18 hours to begin moving his men—all the time the nimble Lee needed to gather his forces to avert disaster. His army was mauled but left the field in good order, enabling the South to carry on its fight for independence—as it turned out for almost three years. Had McClellan struck, as a bolder general might have done, the war could have ended then and there.

Though alive to these contingencies, Mr McPherson is less interested in virtual history than in consequences. He shows that the battlefield draw at Antietam—Sharpsburg to southerners—was far more decisive than was seen at the time. The North let slip a strategic victory but denied one to the South: by turning back Lee's invasion the union dissuaded the British and French governments from granting diplomatic recognition to the confederacy. Had they done so, Mr McPherson believes, other European powers, save perhaps Russia, would have followed their lead.

Crossroads of Freedom: Antietam, The Battle that Changed the Course of the Civil War
By James M. McPherson



Oxford University Press; 203 pages; $26 and £17.99

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It changed the purpose too

More important still, the confederate withdrawal at Antietam gave Abraham Lincoln the confidence he needed to issue the emancipation proclamation, and so transform the character of the war. From then on the fight for reunion was also a fight for freedom. The Yankees had occupied the moral high ground. As Richard Cobden, a prominent pro-union member of the British Parliament, said of the proclamation at the time: “It has closed the mouths of those who have been advocating the side of the South. Recognition of the South, by England, whilst it bases itself on Negro slavery, is an impossibility.”

In this book, as in his magnificent history of the civil war as a whole, “Battle Cry of Freedom” (Oxford, 1988), Mr McPherson cannot conceal that his heart lies on the northern side. But even he can scarce forbear to cheer the dash of the confederacy's cavalry and the resilience of its infantry. He recalls the words of a union surgeon at the time: “It is beyond all wonder how such men as the rebel troops can fight as they do; that, filthy, sick, hungry, and miserable, they should prove such heroes in fight, is past explanation.”

Mr McPherson's judgments of the relative strengths and weaknesses of the rival generals is as interesting as his account of the battle itself. He characterises Lee as “the greatest risk taker of all”; in fact, almost the precise opposite of the man whom McClellan described in his unintentionally comical assessment of Lee before the earlier Seven Days' Battles: “cautious & weak under grave responsibility...wanting in moral firmness when pressed by heavy responsibility...likely to be timid & irresolute in action.”

The confederate withdrawal at Antietam gave Abraham Lincoln the confidence he needed to issue the emancipation proclamation

Instead, Lee became the foremost exemplar of what Mr McPherson calls “an offensive-defensive strategy”, and not just because of his natural audacity. Lee believed that in a long war the North's greater numbers, resources and industrial capacity would grind the South down. To forestall this prospect, he tried quickly to gather the South's maximum strength and to score a victory that would drive the enemy to the negotiating table. Lee, of course, failed in this aim at Antietam, and again at Gettysburg when he invaded the North for a second time in the summer of 1863. Under Ulysses Grant, the North in the end waged the war of attrition that Lee feared.

Mr McPherson's analysis of McClellan is just as shrewd, and unusually sympathetic. The Yankee general was, he concludes, a perfectionist in a profession where nothing could ever be perfect. His army was perpetually almost ready to move, but could not do so until the last horse was shod and the last soldier fully equipped. McClellan was afraid to risk failure, so he risked nothing. He consistently overestimated the strength of the enemy forces (sometimes by multiples of two or three) and used these faulty estimates as a reason for inaction.

Nonetheless, Mr McPherson believes that Lincoln was right in saying that no man could lick troops into shape half as well as McClellan. When an exasperated Lincoln finally relieved him of command, McClellan's soldiers yelled their continuing affection for their sacked hero, and many of them wept unashamedly. He may have been too cautious a general, but he was also a desperately unlucky one in coming up against a lion-hearted army led by a battlefield genius.

Crossroads of Freedom: Antietam, The Battle that Changed the Course of the Civil War.
By James M. McPherson.
Oxford University Press; 203 pages; $26
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About sponsorship

Biography

Getting it down on paper

Aug 22nd 2002
From The Economist print edition

We've all heard of Harry Potter. Who nowadays knows about Harry Kessler?

W.H. AUDEN called him probably the most cosmopolitan man who ever lived. Aesthete, patron, diplomat, diarist, peace campaigner, defender of the Weimar republic and exile from Nazism, this ultra-sophisticated German count belongs to a type that probably no longer exists: a moneyed and cultivated amateur whose brains and background brought him effortless access to politics, society and intellectual life in any capital where he set foot.

The diary he kept from the age of 12 in 1880 to his death in 1937 attests to an astonishing range of friends and interests. How can one man have taken so many meals with so many famous people in a waking day? Henry James, who boasted of dining out more than 200 times in a single London winter, seems by comparison like a stay-at-home. Through the pages of Kessler's diary pass Herbert Asquith, Pierre Bonnard, Jean Cocteau, Serge Diaghilev, Albert Einstein, André Gide, Hugo von Hofmannsthal...You could exhaust several alphabets before draining the contents of this extraordinary man's address book.

The Red Count: The Life and Times of Harry Kessler
By Laird M. Easton

University of California Press; 512 pages; $35 and £24.95

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Kessler was not dropping names. These were his friends, people he kept up with, people he worked with on his countless artistic or political projects, and people he campaigned with for what he believed in. There was more than a touch of vanity in Kessler, and he was certainly a snob. But his hard work and loyalty at making and keeping friends is ever visible.

Kessler is now perhaps most familiar from a portrait of him by Edvard Munch in the Nationalgalerie in Berlin. But the trim figure of a self-satisfied dandy leaning on a cane in a panama is misleading, for it misses the streak of north German seriousness in him that hardened as he aged.

In the first full biography in English, Laird Easton describes Kessler's life in detail and well. He is especially strong on the early years and education. Kessler's father was a Hamburg banker, his mother the granddaughter of an Anglo-Irish colonel and a Persian princess. On the promenade at Ems, his mother caught the eye of Wilhelm I, who ennobled her husband, and Kessler spent a lifetime denying that he was the kaiser's son (the dates don't work, and he almost certainly wasn't).

After school in England and Hamburg, Kessler acquired at Bonn and Leipzig universities an intellectual backbone that saved him from dilettantism and gave his diaries their refreshing lucidity and rigour. He joined the right clubs and the right regiment of Prussian lancers, without for a minute sharing their habits or ideals. As museum director in Weimar—his one brush with paid employment—he championed modern art, provoking objections from the volatile new kaiser in person. Following William Morris, he founded a fine press and supported the revolutionary, bare stagecraft of Edward Gordon Craig.

Kessler saw war on the eastern front and at Verdun, where he was invalided away from in shock. Afterwards he acted as a secret envoy in Switzerland for the empire and again in Poland for the new German republic. His eye-witness reports from post-war Warsaw and Berlin are brilliant evocations of cities on the brink.

By now a left-wing liberal, Kessler sought an elusive middle way between right and left. A patriot, he campaigned internationally not for German revenge but peace and understanding, though the times allowed scant room for either. Remarking on these bravely wet commitments, Richard Strauss's wife snapped at him: “A democrat and a count! You're fouling your own nest.” Less viciously, you could say

Kessler was of politics but not in it, belonging to so many worlds and none. When in 1933, his valet, a Nazi's son, warned him that he was on the party's enemy list, Kessler left Germany for good.

Kessler's actual achievements were few, as Mr Easton acknowledges, particularly when set against his “vast nimbus of potentiality”. His friend Hofmannsthal, on whose librettos he collaborated, thought “the decisive element” in him was missing. Luckily for us, Kessler put not his own doubts and complexities but his times and his friends into a remarkable, indispensable diary. Handy editions are in print from Insel (1996) and in English from Phoenix and from Grove (2000). No better record exists of Kessler's vanished world.

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About sponsorship

Films about film

Two views of Tinseltown

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Two or three things independents know about Hollywood

STAR-POWER unheard of in low-budget film making has assured Steven Soderbergh's new film, “Full Frontal”, one of the widest audiences for any film shot on video except “Star Wars II”. At the low-resolution end of the digital spectrum, the film boasts no special effects except Julia Roberts's smile. It is a “web-of-life” portrayal of nine Los Angelenos, mostly from the film business. Two of them, a blonde star played by Ms Roberts, and a black star played by Blair Underwood, act in a film-within-a-film that is being shot on 35mm, of which we also see some scenes.

“Full Frontal” is actually less about Hollywood than about the independent film movement linked with the Sundance Festival, where in 1989 Mr Soderbergh won a prize for his first film, “sex, lies & videotape”. He says that his return to low-budget film making after scaling the Hollywood heights is about a clash of aesthetics—the digital film we are watching is contrasted with the slick 35mm film-within-a-film, “Rendezvous”, by a fictitious director, Constantine Alexander.

“Rendezvous” is a sly send-up of the kind of film studio classics divisions make with talent bought at Sundance. Alexander has cast his slumming stars in a love story that chides Hollywood's reluctance to let black and white characters kiss on screen. After lobbing a few marshmallows at racist producers and sexist agents, the faux film almost shatters that taboo.

The video frame-film in which “Rendezvous” is embedded appears as a parody of the new look in independent film making—digital formats and web-of-life films were much in evidence at Sundance earlier this year. This one shows the shortcomings of the genre, including a tired image of disconnected Los Angelenos as ships passing in the smog that always plays well in Manhattan. The video images, which Mr Soderbergh deliberately degraded when he processed them, make 35mm look quite attractive.

A different look at Hollywood is a new documentary about a producer, Robert Evans, “The Kid Stays in the Picture”. He tells the tale himself from off-camera, from the moment Norma Shearer spots a 27-year-old Evans in a bathing suit and recommends him to play her late husband, Irving Thalberg, a legendary producer, in a biopic about Lon Chaney. Nine years later Mr Evans is running Paramount.

The film's makers, Brett Morgen and Nanette Burstein, use their own digital magic to match picture to sound, bringing old photos to life by interweaving them with clips from Mr Evans's films such as “Love Story” and “The Godfather”, or fairytale images of Mr Evans's mansion.

With his decadent rasp and roguish charm, Mr Evans gives new meaning to the term “unreliable narrator”, mimicking other characters and monopolising the best lines, from a first dinner with his future wife, Ali McGraw, (“Don't make plans, kid—that's for poor people”), to his escape from rehab in the 1990s, with two guards in pursuit and a faithful chauffeur waiting at the gates: “The two goons pounded behind me. I was winded, and they were both younger than me, but they lacked one thing: heart.” Thanks to Mr Evans, and despite the layers of affectionate irony the directors have wrapped it in, this engaging new film has plenty of that.

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About sponsorship

Experiments in architecture

Heaven's gate

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Mistifying—and delightful

CLOUDS may have silver linings, but even the sunniest of us seldom glimpse them on foot. The marvelous Blur Building that hovers above the lake of Yverdon les Bains in Switzerland provides such an opportunity. It gives anyone who has ever wanted to step into the clouds they watch from the aeroplane window a chance to realise their dream. Visitors don waterproof ponchos before setting off along a walkway above the lake that takes them into the foggy atmosphere of the cloud. The experience of physical forms blurring before your eyes as you enter the cloud is both disorientating and liberating. However firmly your feet are planted on the floor, it is hard to escape the sensation of floating. On the upper deck of this spaceship-shaped structure, the Angel Bar, a translucent counter lit in tones of aqueous blue, beckons with a dozen different kinds of mineral water.

To enter this sublime building perched in the landscape of the Swiss Alps feels like walking into a poem—it is part of nature but removed from reality. Its architects, Elizabeth Diller and Ricardo Scofidio of New York, designed it as a pavilion for the Swiss Expo 02 in the Three Lakes region of Switzerland, an hour's train ride from Geneva, which features a series of exhibits on the lakes. The Blur Building is easily the most successful. Indeed, you can skip the rest of the Expo—a Swiss kitsch version of Britain's Millennium Dome—and head straight for the cloud, which is there until the end of October.

The architects asked themselves what was the ideal material for building on a lake and decided on water itself: the element of the lake, the snow, the rivers and the mist above it. They wanted to play on and lay bare the notion of a world's fair pavilion by creating an ethereal ghost of one in which there is nothing to see. The result is a refuge from the surveillance cameras and high-definition images of our everyday world—a particular tease in Switzerland, where clarity and precision are so prized. (Anti-architecture or not, the Blur Building cost a cool $7.5m.)

Out-of-the-box thinking is a trademark of Diller+Scofidio, a husband-and-wife team of architecture professors who became the first architects to win a genius grant from the MacArthur Foundation in 1999. Although they have built very little, they are interested in the social experience of architecture, in challenging people's ideas about buildings. They treat architecture as an analytical art form that combines other disciplines, such as visual art and photography, dance and theatre.

To realise its Utopian poetry, the Blur Building has to be technologically state-of-the-art. Water from the lake is pumped through 32,000 fog nozzles positioned throughout the skeleton-like stainless steel structure; so the building does not just look like a cloud on the outside, it feels like a cloud on the inside. And while the 300-foot-wide platform can accommodate up to 400 people, visitors vanish from each other in the mist at about five paces, so you really can wander lonely as a cloud. Wordsworth must be smiling.

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About sponsorship

The VW Beetle

Legless but lovable

Aug 22nd 2002
From The Economist print edition

IN 1932, Soviet leaders asked Ferdinand Porsche to oversee their automobile industry. Had he agreed, the famous people's car, the Volkswagen, might have been known as the Narodnaya Mashina instead. But Mr Porsche, a racing-car engineer, hated the Russian climate and returned to Germany. Besides wanting to make racing cars, he dreamt of creating a truly popular car that would be affordable, reliable and available. Unlike American car makers, who designed their cheap cars to look like Cadillacs, Porsche's creation was to boast of its workaday simplicity.

To meet a target price of 1,000 marks, approved by the new German chancellor, Adolf Hitler, Porsche devised a rear-mounted, lightweight and air-cooled engine that avoided the need for a heavy radiator. The car was not fast or powerful but could run without flagging at a steady 80 kilometres (50 miles) an hour. Mass-production at Wolfsburg, it was reckoned, would make this car a salesroom winner.

Many stories are told about the Beetle's homely streamlining. “It should look like a beetle,” Hitler is supposed to have told Porsche, after doodling a picture of a cockchafer. By contrast, a competing Czech car designer claimed priority for features on a similar car he thought a predatory Volkswagen copied from. In fact, streamlining was in the air, America included, and the novelty of the VW was probably less its shape than its unadorned compactness.

After wartime use, the Beetle's story brightens again with a lightning invasion of America. In a famous ad campaign, Doyle Dane Bernbach attacked Detroit's two-ton finned monsters, promoting the car as young, carefree and hip. Before long, Walt Disney starred it as Herbie in a string of “Love Bug” comedies. These twin images of post-college freedom and cuddly personification linger apparently. The latest Beetle still sells better in America than Europe, where the name tends to evoke meagre incomes, foggy windscreens and hours of heavy steering in the cold.

Few consumer products were so close to the pulse of 20th-century culture. In “Bug”, Phil Patton, an American design writer, gives an engaging account of the car's history, from low-budget origins to new-tech reincarnation. The anecdotes should be fun, even for readers uninterested in the virtues of the torsion bar.

Bug: The Strange Mutations of the World's Most Famous Automobile.
By Phil Patton.
Simon & Schuster; 256 pages; $25

Bug: The Strange Mutations of the World's Most Famous Automobile
By Phil Patton

Simon & Schuster; 256 pages; $25

Buy it at
Amazon.com
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New fiction

Up the creek

Aug 22nd 2002
From The Economist print edition

MICHAEL CRUMMEY'S debut novel dramatises a series of 19th-century expeditions into the interior of Newfoundland. An established poet and short-story writer, Mr Crummey's novel was rapturously received when it appeared in Canada last year; it is now published for the first time in Britain.

At the centre of the story are three settlers: a crusty old salt called John Peyton; his weedy, idealistic son, John Peyton junior; and Cassie Jure, a comely young woman with an unhappy past and a taste for Shakespeare, who serves as housekeeper to Peyton *père* and tutor to Peyton *fils*.

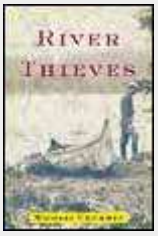
Thrown into the mix is David Buchan, a British naval officer sent to Newfoundland to establish friendly relations with the native Beothuk Indians. Buchan is accompanied on his goodwill mission by the younger John Peyton, while his father, who has had bloody run-ins with the Beothuk before, sneers from the sidelines.

The story jumps between present and past, giving Mr Crummey plenty of opportunity both to evoke the cruel beauty of the Newfoundland landscape (which he does well) and to delve into the backgrounds, fears and longings of his characters (which often seem interminable).

With its cast of shanty-singing sea-dogs, feisty frontier gals and whoring roughnecks, its colourful period dialogue, inter-generational conflicts and love-triangle subplot, “River Thieves” has the makings of a sumptuous television mini-series—the kind of enjoyable historical melodrama to which words like “sweeping” and “epic” are too generously applied.

River Thieves.
By Michael Crummey.
Houghton Mifflin; 352 pages; $24.
Canongate Books; £10.99

River Thieves
By Michael Crummey



Houghton Mifflin; 352 pages; $24.
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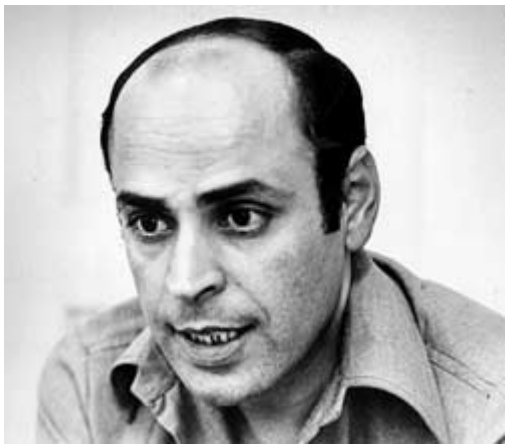
About sponsorship

Abu Nidal

Aug 22nd 2002
From The Economist print edition

Abu Nidal, terrorist, died on August 17th, aged 65

PA



THE United States once described Abu Nidal as “the world's most dangerous terrorist”. It was not an exaggeration. In a grisly campaign stretching over two decades and three continents, his Fatah Revolutionary Council (FRC) was responsible for the deaths of perhaps 1,000 people in 20 countries, usually at the behest and in the pay of this or that Middle East regime.

Sometimes the targets were Jews, as in the simultaneous attacks on Israeli check-in counters at airports in Rome and Vienna in December 1985, killing 19 people and wounding 120. Or the machinegunning of an Istanbul synagogue in September 1986 that left 22 dead. More often the slain were Palestinians, especially those who advocated peace with Israel in the days when it was brave rather than wise to do so. Abu Nidal's worst single act of carnage was the downing of a TWA airliner en route from Israel to Greece in October 1974: all 88 people aboard died.

But the act that had the most significant consequences was the FRC's attempted assassination in June 1982 of Israel's ambassador to London, Shlomo Argov. This gave Israel's Likud government of Menachem Begin, whose defence minister was Ariel Sharon, the pretext to, as they put it, “strike at” Yasser Arafat's Palestine Liberation Organisation (PLO) through the invasion of Lebanon. Both men, even then, were aware that Abu Nidal was Mr Arafat's mortal Palestinian enemy. In those days, as perhaps in these, it barely mattered. “Abu Nidal, Abu Shmidal, they're all the same,” was the judgment of Israel's then army chief, Rafael Eitan.

Abu Nidal (Father of the Struggle) was the *nom de guerre* of Sabri al-Banna. He was born to a wealthy Palestinian family in a fine Arab house in the Mediterranean port town of Jaffa that today serves as an Israeli military court. The family fled in the 1948 war that saw Israel born and most of Palestine lost. Like thousands of his kin, he became a refugee in Nablus. He worked as a teacher and in 1960 joined Mr Arafat's fledgling movement.

The falling out

He rose rapidly, becoming the PLO's ambassador to Khartoum and then Baghdad. The higher he climbed the more he fell out with Mr Arafat's stewardship of the Palestinian cause. In 1974, egged on by Saddam Hussein, then Iraq's vice-president, he founded the FRC as a rival to Mr Arafat's movement. That year the PLO had decided to try to establish a “fighting national authority” in any part of the liberated homeland as a “stage” to the recovery of Palestine as a whole. Abu Nidal viewed this, accurately, as the PLO's first move away from the ideology of “total liberation”, and towards some sort of accommodation with Israel.

Over the next eight years, working usually out of Baghdad, the FRC turned their guns on any Palestinian official who tried to put that accommodation into practice, assassinating in 1978 the PLO's representatives to London and Paris, Said Hammami and Izzadin Kalak. Both men had made pioneering efforts to forge a dialogue with sympathetic Israelis.

In 1982 Abu Nidal moved to Syria and set up home in Damascus. The FRC launched spectacular acts of terrorism whose sole purpose appeared to be to discredit Mr Arafat's attempted rapprochement with Jordan and other acts of diplomacy whose direction was clearly towards creating a Palestinian state

alongside Israel. Among its victims was a moderate PLO diplomat, Issam Sartawi, shot dead at a Socialist International conference in Lisbon in 1983.

Abu Nidal made efforts to join forces with an array of dissidents from the PLO that, under Syrian tutelage, were striving to prise the movement from Mr Arafat's grip. Those endeavours came to a bloody end in October 1988 when Abu Nidal feared an attempt to oust him. In a purge of the FRC 156 of its members were murdered. It was a bloodletting from which Abu Nidal and his organisation never recovered. For the next decade, he plied his murderous trade for Libya and Egypt, among others. They gave him protection in return for services rendered, after which he and what was left of the FRC were moved on. He reportedly arrived in Baghdad in 2000: here, at least, he was still owed favours.

In January 1991, on the eve of the Gulf war, an FRC gunman shot dead Salah Khalaf (Abu Iyad), who was second to Mr Arafat in the PLO hierarchy. He had been the most outspoken Palestinian critic of Iraq's invasion of Kuwait and was contemptuous of Saddam Hussein's attempts to “link” the aggression with Israel's occupation of the West Bank and Gaza. Palestinians are convinced Khalaf was shot on Baghdad's orders.

It is unclear whether Abu Nidal was murdered by a gunman in Baghdad or took his own life because he had cancer. What is clear is his death is unmourned by Palestinians, whether in the occupied territories or beyond. Some believe he was in the pay of Israel, so routinely did his useless violence appear to besmirch Palestinian signs of moderation, particularly during the 1970s. Others are aware that no one else did quite so much to tarnish their struggle for freedom with the blight of terrorism. “He defamed our cause,” said Abbas Zaki, a veteran Palestinian leader.

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Overview

Aug 22nd 2002
From The Economist print edition

Recovery continues to falter in the **euro-area**. Industrial output rose by just 0.5% in June on the previous month, and was 1.2% down on a year ago. The Ifo economic climate index for the euro-area deteriorated in the third quarter.

Further signs of weakness emerged in **Germany**, which accounts for nearly a third of the euro-area economy. GDP grew at an annual rate of 1.1% in the second quarter, leaving it little higher than a year ago. Orders in the construction sector, which has been a persistent drag on the economy, were 10% lower in June than a year ago. The German central bank gave a warning that the economy was still "vulnerable to new shocks". Concerns about the impact of the recent floods on Germany's budget were one reason why Chancellor Gerhard Schröder announced a delay in tax cuts planned for next year.

Stockmarkets in America and Europe rose for the second week running. In the United States, the S&P 500 index climbed by 3.3% and the tech-heavy Nasdaq by 5.6%. Investors in European equities had even more to celebrate. The euro-area's FTSE Ebloc 100 index rose by 7.9%, Germany's Xetra DAX by 7.8%, France's CAC 40 by 7.5% and Britain's FTSE 100 index by 4.6%. However, Japan's Topix index slipped back a little.

American inflation remains low, which will give the Federal Reserve more scope to cut interest rates. Consumer prices rose by just 0.1% in July from June and were 1.5% higher than a year ago. Inflationary pressures remain concentrated in medical care and education. Prices are falling in many other sectors such as clothing and new cars.

In **Britain**, the housing market rebounded in July. Gross mortgage lending was a record £21.8 billion, up from £17.1 billion in June and more than 40% higher than a year ago. The number of new loans for house purchase jumped from 108,000 in June to 147,000, another record.

American **crude oil** futures hit an 18-month high, as the September contract rose above $30. Oil prices have risen by more than 10% in August because of fears of the impact of a conflict between America and Iraq on supplies from producers in the Middle East.

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Output, demand and jobs

Aug 22nd 2002
From The Economist print edition

% change on year ago

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr*	1 year	2002	2003	latest	latest	latest	year ago
Australia	+ 3.6	+ 4.2 Q1	+ 4.0	+ 3.8	+ 4.3 Q1	+ 6.3 Q2	6.2 Jul	6.9
Austria	+ 0.3	− 0.6 Q1	+ 0.9	+ 2.6	+ 1.6 May	− 1.1 Apr	4.1 Jun	3.5
Belgium	+ 1.8	− 0.3 Q1	+ 1.3	+ 2.9	− 4.1 Jun	− 3.3 May	11.8 Jul†	11.1
Britain	+ 3.8	+ 1.5 Q2	+ 1.7	+ 2.9	− 6.6 Jun	+ 4.5 Jul	5.1 Jun‡	5.0
Canada	+ 6.0	+ 2.1 Q1	+ 3.3	+ 3.5	+ 0.5 May	+ 4.3 May	7.6 Jul	7.0
Denmark	+ 1.4	+ 1.1 Q1	+ 1.6	+ 2.4	+ 4.2 Jun	+ 1.5 Apr	5.1 Jun	5.2
France	+ 1.8	+ 0.4 Q1	+ 1.4	+ 2.7	nil Jun	− 2.5 Jun	9.0 Jun††	8.6
Germany	+ 1.1	+ 0.1 Q2	+ 0.7	+ 2.3	− 2.3 Jun	− 5.2 Jun	9.9 Jul§	9.3
Italy	+ 0.9	+ 0.2 Q2	+ 1.0	+ 2.5	− 5.4 Jun	− 0.2 May	9.0 Apr	9.5
Japan	+ 5.7	− 1.6 Q1	− 0.3	+ 1.1	− 2.9 Jun	− 3.5 Jun	5.4 Jun	4.9
Netherlands	+ 0.5	+ 0.1 Q2	+ 1.0	+ 2.5	− 3.0 Jun	− 2.1 May	2.4 Jul**	2.0
Spain	+ 2.1	+ 2.0 Q1	+ 2.1	+ 3.0	− 4.4 Jun	na	11.5 Jun	10.6
Sweden	+ 2.4	+ 2.1 Q2	+ 1.7	+ 2.9	+ 1.9 May	+ 4.5 Jun	4.0 Jun†	4.4
Switzerland	+ 0.7	+ 0.2 Q1	+ 1.0	+ 2.3	− 8.8 Q1	− 3.0 Jun	2.6 Jul†	1.7
United States	+ 1.1	+ 2.1 Q2	+ 2.7	+ 3.4	+ 0.2 Jul	+ 5.4 Jun	5.9 Jul	4.6
Euro area	+ 1.3	+ 0.3 Q1	+ 1.1	+ 2.6	− 1.2 Jun	+ 0.7 May	8.4 Jun	8.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	− 0.6	− 2.0 Q1	na	na	+ 5.5 Jun	+ 2.4 Apr	7.8 Jul†	7.6
Greece	na	+ 4.3 Q1	na	na	+ 2.4 Jun	+ 9.9 Apr	na	na
Iceland	na	+ 3.12001	na	na	+ 3.3 2001	na	2.3 Jul†	1.1
Ireland	na	+ 2.9 Q1	na	na	+16.0 Jun	+ 0.3 May	4.3 Jul	3.7
Luxembourg	na	+ 3.52001	na	na	+ 4.3 May	+ 4.9 Mar‡‡	2.7 May	2.4
New Zealand	+ 4.3	+ 4.0 Q1	na	na	+ 4.3 Q1	+ 8.3 Q2	5.1 Q2	5.3
Norway	− 1.1	+ 1.0 Q1	na	na	+ 5.3 Jun	+ 2.9 Jun	3.8 Q2	3.6
Portugal	+ 1.4	+ 1.4 Q1	na	na	− 0.7 Jun	− 1.5 Jun	4.5 Q2†	3.9

*% change at an annual rate. †Not seasonally adjusted. ‡April-June; claimant count rate 3.1% in July. §EU harmonised rate 8.3%.
**May-Jul. ††Revised series. ‡‡New series.

Text refers only to the first 16 countries listed

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Prices and wages

Aug 22nd 2002
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2002	2003	latest		year ago	latest		year ago
Australia	+ 2.8	Q2	+ 6.0	+ 2.8	+ 2.6	– 1.1	Q2	+ 5.6	+ 3.7	Q2	+ 4.4
Austria	+ 1.6	Jul	+ 2.8	+ 1.7	+ 1.7	– 1.0	Jul	+ 1.9	+ 2.4	Jul	+ 2.8
Belgium	+ 1.3	Jul	+ 2.7	+ 1.7	+ 1.6	+ 2.4	Jun	+ 0.9	+ 2.6	Q2	+ 2.6
Britain	+ 1.5	Jul	+ 1.6	+ 1.9	+ 2.4	+ 0.3	Jul	– 0.1	+ 3.9	Jun	+ 4.7
Canada	+ 2.1	Jul	+ 2.6	+ 1.7	+ 2.2	– 1.2	Jun	+ 1.5	+ 2.8	May	+ 0.7
Denmark	+ 2.2	Jul	+ 2.4	+ 2.3	+ 2.0	– 0.9	Jul	+ 2.7	+ 4.0	Q1	+ 3.8
France	+ 1.6	Jul	+ 2.1	+ 1.8	+ 1.4	– 1.5	Jun	+ 2.3	+ 3.9	Q1	+ 4.3
Germany	+ 1.0	Jul	+ 2.6	+ 1.4	+ 1.2	– 0.8	Jul	+ 2.2	+ 2.5	Jun	+ 1.9
Italy	+ 2.2	Jul	+ 2.9	+ 2.3	+ 1.9	– 0.8	Jun	+ 2.4	+ 2.4	Jun	+ 2.7
Japan	– 0.7	Jun	– 0.8	– 1.0	– 0.5	– 2.2	Jul	+ 0.7	– 3.2	Jun	+ 2.1
Netherlands	+ 3.5	Jul	+ 4.6	+ 3.6	+ 2.3	– 2.2	Jun	+ 4.3	+ 3.0	Jun	+ 5.1
Spain	+ 3.4	Jul	+ 3.9	+ 3.3	+ 2.7	+ 0.5	Jun	+ 2.4	+ 4.0	Q1	+ 3.4
Sweden	+ 2.2	Jul	+ 2.9	+ 2.4	+ 2.1	– 0.6	Jun	+ 2.2	+ 4.1	May	+ 3.6
Switzerland	– 0.1	Jul	+ 1.4	+ 1.0	+ 1.2	– 1.6	Jul	+ 0.2	+ 2.5	2001	+ 1.3
United States	+ 1.5	Jul	+ 2.7	+ 1.6	+ 2.2	– 1.1	Jul	+ 1.4	+ 3.2	Jul	+ 4.1
Euro area	+ 1.9	Jul	+ 2.6	+ 2.1	+ 1.6	– 1.1	Jun	+ 3.2	+ 3.3	Q1	+ 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.8	Jul	+ 2.6	na	na	– 1.3	Jul	+ 0.7	+ 3.8	Q2	+ 4.9
Greece	+ 3.3	Jul	+ 3.9	na	na	– 0.1	Jun	+ 5.4	na		na
Iceland	+ 3.2	Aug	+ 7.9	na	na	+ 6.2	Aug	+ 6.9	+ 6.6	Jul	+ 8.1
Ireland	+ 4.2	Jul	+ 4.8	na	na	– 1.3	Jun	+ 5.0	+ 8.9	Q1	+ 7.4
Luxembourg	+ 2.0	Jul	+ 3.0	na	na	– 1.3	Jun	+ 0.1	+ 0.9	May	+ 2.7
New Zealand	+ 2.8	Q2	+ 3.2	na	na	+ 2.8	Q1	+ 8.0	+ 2.1	Q2	+ 1.8
Norway	+ 1.6	Jul	+ 2.7	na	na	– 9.4	Jul	– 3.2	+ 4.6	Q1	+ 4.4
Portugal	+ 3.4	Jul	+ 4.3	na	na	– 3.8	Jun	+ 4.2	– 0.2	Jun	– 0.6

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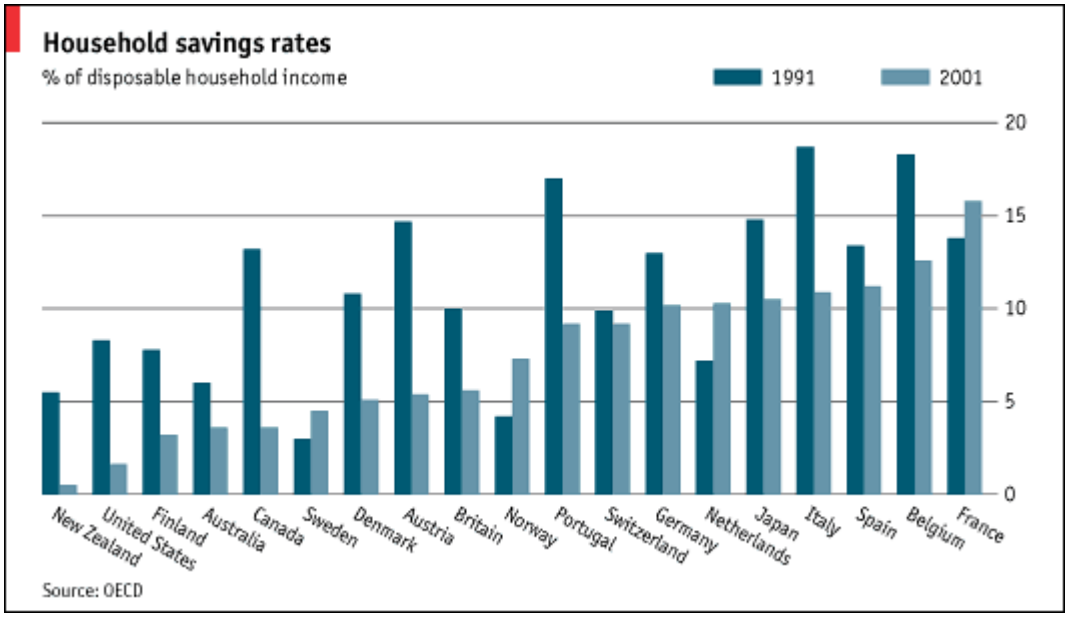
Household savings rates

Aug 22nd 2002
From The Economist print edition



“Spend, spend, spend” was the motto of the 1990s. In only four of the 19 countries in our chart did households save a higher share of their disposable income in 2001 than in 1991. Thrift declined most dramatically in Austria, Canada, Italy and Portugal. The fall in America's saving ratio, much remarked on during the boom and since, is also clear: Americans saved only 1.6% of their income last year.

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Money and interest rates

Aug 22nd 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Aug 21st 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	– 1.3	+12.3	Jun	4.96	4.95	5.06	5.73	5.67	6.58
Britain	+ 9.6	+ 6.5	Jun	3.94	4.94	4.03	4.69	4.87	5.84
Canada	+14.5	+ 5.8	Jun	2.87	3.93	3.34	5.10	5.49	7.01
Denmark	+ 3.2	+ 7.3	Jun	3.60	4.74	4.09	4.85	5.04	6.88
Japan	+30.6	+ 3.3	Jul	0.02	0.03	0.00	1.26	1.33	1.35
Sweden	+ 2.2	+ 4.2	Jun	4.14	4.29	4.65	5.13	5.07	5.15
Switzerland	+10.9	+ 5.8	Jul	0.79	3.19	1.32	2.94	3.24	3.98
United States	+ 5.2	+ 7.4	Jul	1.69	3.56	2.08	4.69	4.98	6.49
Euro area†	+ 6.9	+ 7.1	Jun	3.35	4.31	3.60	4.57	4.77	5.56

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 4.93%, Japan No.240 1.25%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.002%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Aug 22nd 2002
From The Economist print edition

1995=100

	Aug 13th	Aug 20th*	% change on one month	% change on one year
Dollar index				
All items	73.5	72.7	– 0.7	+ 6.4
Food	77.7	75.9	– 0.5	+ 9.2
Industrials				
All	67.6	68.4	– 0.9	+ 2.3
Nfa†	71.0	71.7	+ 1.6	+ 7.4
Metals	64.8	65.5	– 3.1	– 1.9
Sterling index				
All items	75.6	75.2	+ 1.8	+ 1.0
Euro index				
All items	98.8	98.0	+ 1.0	– 0.5
Yen index				
All items	93.2	92.1	+ 0.7	+ 5.7
Gold				
$ per oz	314.95	308.50	– 3.2	+11.6
West Texas Intermediate				
$ per barrel	27.95	29.82	+13.1	+ 5.7

* Provisional. † Non-food agriculturals.

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Stockmarkets

Aug 22nd 2002
From The Economist print edition

Market indices

	Aug 21st	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	3,113.8	3,440.0	2,937.8	+ 2.2	- 9.5	- 7.3	- 1.6
Austria (ATX)	1,123.4	1,357.2	1,113.5	- 0.7	-35.3	- 1.5	+ 8.5
Belgium (Bel 20)	2,252.9	2,899.8	2,001.6	+ 5.5	-38.8	-19.0	-10.8
Britain (FTSE 100)	4,364.8	5,323.8	3,777.1	+ 4.6	-37.0	-16.3	-12.0
Canada (Toronto Composite)	6,664.9	7,958.1	6,161.1	+ 1.8	-41.5	-13.3	-11.3
Denmark (KBX)	189.2	233.4	169.0	+ 5.6	-37.3	-15.8	- 7.2
France (SBF 250)	2,329.5	3,081.9	2,067.7	+ 6.6	-46.9	-21.9	-13.9
(CAC 40)	3,485.2	4,688.0	3,023.7	+ 7.5	-49.7	-24.6	-17.0
Germany (Xetra DAX)	3,868.2	5,462.6	3,332.7	+ 7.8	-52.0	-25.0	-17.4
Italy (BCI)	1,222.3	1,513.0	1,077.8	+ 5.8	-44.0	-14.7	- 6.1
Japan (Nikkei 225)	9,642.6	11,979.9	9,420.9	nil	-75.2	- 8.5	+ 1.1
(Topix)	947.4	1,139.4	922.5	- 0.5	-67.2	- 8.2	+ 1.5
Netherlands (AEX)	380.7	531.2	318.5	+ 9.6	-45.7	-24.9	-17.3
Spain (Madrid SE)	676.5	848.1	625.9	+ 6.2	-41.0	-17.9	- 9.6
Sweden (Affarsvarlden Gen)	157.0	236.8	143.1	+ 4.5	-60.8	-32.1	-23.7
Switzerland (Swiss Market)	5,486.4	6,694.1	4,607.8	+ 4.2	-34.8	-14.5	- 5.2
United States (DJIA)	8,957.0	10,635.3	7,702.3	+ 2.4	-23.6	-10.6	-10.6
(S&P 500)	949.8	1,172.5	797.7	+ 3.3	-37.8	-17.3	-17.3
(Nasdaq Comp)	1,409.1	2,059.4	1,206.0	+ 5.6	-72.1	-27.8	-27.8
Europe (FTSE Eurotop 300)*	984.8	1,279.7	862.3	+ 5.9	-42.2	-21.9	-14.0
Euro area (FTSE Ebloc 100)*	834.5	1,125.1	732.5	+ 7.9	-46.2	-25.0	-17.3
World (MSCI)†	856.6	1,024.4	756.7	+ 3.3	-40.9	na	-14.6
World bond market (Salomon)‡	493.4	499.8	430.3	- 1.3	- 1.3	na	+12.2

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Aug 22nd 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2002	Current account The Economist poll % of GDP, forecast 2003	Exchange rate trade-weighted† Aug 21st	Exchange rate trade-weighted† year ago	Currency units per $ Aug 21st	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2002‡
Australia	− 0.1 Jun	− 9.5 Q1	− 3.4	− 3.4	72.5	73.6	1.84	1.86	2.82	1.80	1.55	0.1
Austria	− 2.0 May	− 1.3 Jun	− 1.9	− 1.7	na	100.6	1.02	1.09	1.56	–	0.86	-0.3
Belgium	+ 15.1 Jun	+ 13.0 Dec	+ 4.8	+ 4.9	na	99.5	1.02	1.09	1.56	–	0.86	nil
Britain	− 45.6 Jun	− 31.2 Q1	− 2.0	− 1.9	104.6	104.7	0.65	0.69	–	0.64	0.55	-0.8
Canada	+ 34.0 Jun	+ 14.7 Q1	+ 2.4	+ 2.5	76.1	77.5	1.56	1.54	2.39	1.53	1.32	1.0
Denmark	+ 7.2 Jun	+ 3.5 Jun	+ 1.7	+ 1.7	103.1	102.9	7.57	8.09	11.6	7.43	6.39	2.2
France	+ 9.0 Jun	+ 28.4 Jun	+ 1.7	+ 1.6	na	102.2	1.02	1.09	1.56	–	0.86	-2.0
Germany	+100.6 Jun	+ 27.2 Jun	+ 1.2	+ 1.1	na	99.2	1.02	1.09	1.56	–	0.86	-2.8
Italy	+ 9.3 May	− 2.9 May	nil	nil	na	72.9	1.02	1.09	1.56	–	0.86	-1.4
Japan	+ 80.6 Jun	+107.0 Jun	+ 2.8	+ 2.8	136.8	139.1	119	120	182	116	–	-8.0
Netherlands	+ 23.7 Jun	+ 2.7 Q2	+ 4.0	+ 4.2	na	98.4	1.02	1.09	1.56	–	0.86	0.1
Spain	− 36.9 May	− 16.5 May	− 2.1	− 1.8	na	74.5	1.02	1.09	1.56	–	0.86	-0.3
Sweden	+ 14.3 Jun	+ 8.3 Jun	+ 3.3	+ 3.4	77.3	74.6	9.33	10.3	14.3	9.15	7.87	2.1
Switzerland	+ 3.0 Jul	+ 25.7 Q1	+ 9.8	+10.1	114.0	109.1	1.50	1.65	2.29	1.47	1.26	na
United States	−435.5 Jun	−398.1 Q1	− 4.4	− 4.7	113.3	116.6	–	–	1.53	0.98	0.84	-1.0
Euro area	+ 79.2 Jun	+ 20.2 May	+ 0.4	+ 0.5	81.8	80.1	1.02	1.09	1.56	–	0.86	-1.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 12.6 Jun	+ 8.6 Jun	na	na	na	78.9	1.01	1.09	1.55	–	0.85	3.2
Greece	− 18.8 Mar	− 6.7 Mar	na	na	na	57.7	1.01	1.09	1.55	–	0.85	0.4
Iceland	+ 0.1 Jun	− 0.2 Q1	na	na	na	na	85.9	98.0	132	84.3	72.5	-0.5
Ireland	+ 33.9 May	− 0.4 Q1	na	na	na	88.3	1.01	1.09	1.55	–	0.85	0.1
Luxembourg	− 2.9 May	+ 1.7 Q1	na	na	na	99.5	1.01	1.09	1.55	–	0.85	2.2
New Zealand	+ 0.2 Jun	− 1.2 Q1	na	na	84.7	82.9	2.16	2.25	3.31	2.12	1.82	0.1
Norway	+ 24.9 Jul	+ 26.1 May	na	na	105.2	95.2	7.55	8.81	11.6	7.41	6.37	14.0
Portugal	− 12.7 May	− 9.3 May	na	na	na	89.8	1.01	1.09	1.55	–	0.85	-2.4

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD forecast.

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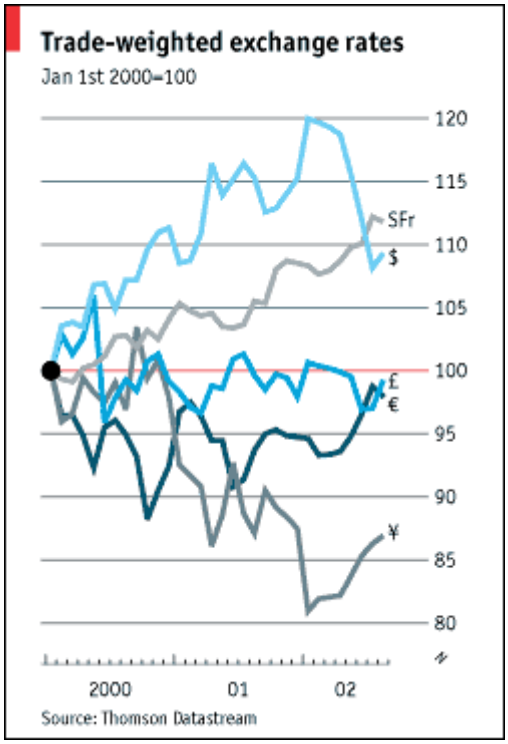
Trade-weighted exchange rates

Aug 22nd 2002
From The Economist print edition



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Overview

Aug 22nd 2002
From The Economist print edition

Economies in East Asia are growing strongly. **Malaysia's** GDP rose by 3.8% in the year to the second quarter. **Taiwan's** output grew by 3% over the same period. **Singapore's** trade surplus widened to $6.4 billion in the year to July.

Mexico's economy revived, with growth of 2.1% in the year to the second quarter, after a 2.0% fall the previous quarter.

Consumer prices in **Poland** fell by 0.5% in July, bringing the annual inflation rate down to a record low of 1.3%. However, inflation in **South Africa** rose to 10.6% in the year to July and edged up to 6.9% in **Israel**.

Stockmarkets rose by nearly 5% in **Seoul, Tel Aviv, Moscow** and **Hong Kong**. However, equity prices fell by 4.1% in **Istanbul**.

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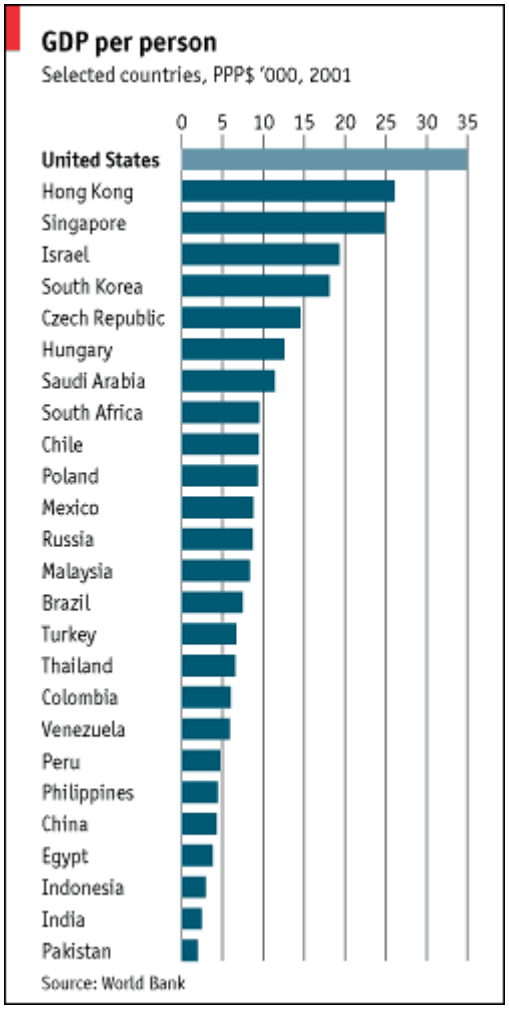
GDP per person

Aug 22nd 2002
From The Economist print edition

The gap in prosperity between developed and emerging economies remains stark. But the record of once poor countries such as South Korea shows that it is possible to raise living standards towards western levels. Globalisation helps. In the 1990s, GDP per person rose by 5% a year in those developing countries that have opened their economies the most to international trade and investment.



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Economy

Aug 22nd 2002
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 8.0	Q2	+12.8	Jul	– 0.9	Jul	+28.3	Jul	+17.4	2001	241.9	May
Hong Kong	– 0.9	Q1	–11.6	Q1	– 3.3	Jun	– 8.5	Jun	+14.1	Q1	112.3	Jul
India	+ 6.4	Q1	+ 4.0	Jun	+ 4.2	Jun	– 5.4	Jun	+ 1.4	Q1	56.5	Jul
Indonesia	+ 3.5	Q2	– 9.4	Q4	+10.1	Jul	+27.5	Jun	+ 8.4	Q3	28.4	Jun
Malaysia	+ 3.8	Q2	+ 4.9	Jun	+ 2.1	Jul	+13.4	Jun	+ 7.0	Q1	32.4	Jun
Philippines	+ 3.8	Q1	+10.7	May	+ 2.6	Jul	+ 2.6	Jun	+ 5.6	Apr	13.5	Jul
Singapore	+ 3.9	Q2	+18.9	Jun	+ 0.1	Jun	+ 6.4	Jul	+17.5	Q2	80.3	Jul
South Korea	+ 6.3	Q2	+ 5.4	Jun	+ 2.1	Jul	+ 9.0	Jul	+ 5.7	Jun	115.4	Jul
Taiwan	+ 3.0	Q2	+ 8.4	Jun	+ 0.4	Jul	+18.6	Jul	+24.8	Q2	155.3	Jul
Thailand	+ 3.9	Q1	+ 6.2	Jun	+ 0.1	Jul	+ 3.8	Jun	+ 6.6	Jun	36.0	Jun
Argentina	–16.3	Q1	–12.4	Jun	+32.9	Jul	+12.6	Jun	nil	Q1	9.6	Jun
Brazil	– 0.7	Q1	+ 0.7	Jun	+ 7.5	Jul	+ 6.4	Jul	–18.1	Jun	41.9	Jun
Chile	+ 1.5	Q1	– 2.0	Jun	+ 2.6	Jul	+ 2.3	Jun	– 1.0	Q1	15.1	Jun
Colombia	+ 0.5	Q1	– 0.7	May	+ 6.2	Jul	+ 0.5	May	– 1.4	Q1	10.7	Jun
Mexico	+ 2.1	Q2	– 0.7	Jun	+ 5.5	Jul	– 9.2	Jun	–16.8	Q1	45.5	Jun
Peru	+ 3.6	Jun	+ 2.8	May	nil	Jul	+ 0.2	Jun	– 1.0	Q1	8.7	Jun
Venezuela	– 4.2	Q1	–20.0	Mar	+22.0	Jul	+ 8.0	Q1	+ 1.8	Q1	6.7	May
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.8	May	– 8.4	Mar	– 0.1	Q1	12.7	Apr
Israel	– 1.7	Q2	+ 0.1	May	+ 6.9	Jul	– 6.4	Jun	– 2.3	Q1	22.8	Jul
South Africa	+ 2.1	Q1	– 0.1	Jun	+10.6	Jul	+ 3.5	Jun	– 0.1	Q1	5.9	Jun
Turkey	+ 2.3	Q1	+ 6.6	Jun	+41.3	Jul	– 9.7	May	+ 2.0	May	22.3	Jun
Czech Republic	+ 2.5	Q2	+ 1.3	Jun	+ 0.6	Jul	– 2.5	Jun	– 2.4	Q1	21.4	Jul
Hungary	+ 2.9	Q1	+ 4.1	Jun	+ 4.6	Jul	– 2.3	Jun	– 1.9	Jun	10.2	Jun
Poland	+ 0.5	Q1	+ 2.2	Jun	+ 1.3	Jul	–10.6	Jun	– 6.6	Jun	27.1	Jul
Russia	+ 3.7	Q1	+ 7.8	Jul	+14.9	Jul	+42.4	Jun	+28.3	Q2	39.6	Jul
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+21.3	Apr	+ 4.4	Jun	– 1.2	Jul	+ 0.3	2001†	4.1	May
Saudi Arabia	+ 1.2	2001	na		– 0.2	Apr	+44.1	2001	+14.5	2001	18.3	Jun

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

Aug 22nd 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Aug 21st		Dec 31st 2001	
	Aug 21st	year ago	Aug 21st	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.7	na	1,746.7	+1.6	+ 2.0	+ 2.0
Hong Kong	7.80	7.80	11.9	1.71	10,402.3	+4.4	- 8.7	- 8.8
India	48.5	47.1	74.3	5.80	3,084.4	+2.1	- 5.5	- 6.0
Indonesia	8,875	8,615	13,589	15.16	457.2	+2.1	+ 16.6	+ 36.7
Malaysia	3.80	3.80	5.82	3.20	730.8	+0.1	+ 5.0	+ 5.0
Philippines	52.0	51.0	79.6	7.75	1,104.7	-2.6	- 5.4	- 6.1
Singapore	1.75	1.75	2.68	0.81	1,533.5	+0.4	- 5.6	- 0.3
South Korea	1,187	1,278	1,817	4.80	745.1	+4.8	+ 7.4	+ 18.9
Taiwan	33.9	34.6	51.9	2.10	4,887.8	nil	- 12.0	- 9.1
Thailand	42.1	44.6	64.4	2.00	372.2	+0.3	+ 22.5	+ 28.7
Argentina	3.60	1.00	5.51	67.00	384.9	+4.3	+ 30.3	- 63.8
Brazil	3.09	2.53	4.72	17.83	9,437.7	+1.0	- 30.5	- 47.9
Chile	703	669	1,076	2.88	4,987.2	-1.1	- 7.6	- 13.1
Colombia	2,626	2,283	4,021	7.88	1,198.3	-2.3	+ 11.9	- 3.0
Mexico	9.79	9.12	15.0	6.78	6,267.9	+3.5	- 1.6	- 7.9
Peru	3.57	3.49	5.47	2.64	1,196.0	+2.1	+ 1.8	- 1.9
Venezuela	1,394	730	2,134	28.00	6,729.5	-3.2	+ 2.4	- 44.3
Egypt	4.62	4.26	7.07	7.17	5,260.5	-0.8	- 0.2	- 1.2
Israel	4.64	4.24	7.10	6.40	366.7	+4.7	- 17.9	- 21.9
South Africa	10.9	8.38	16.7	12.55	9,682.4	+4.0	- 7.3	+ 2.2
Turkey	1,632,500	1,457,500	2,499,521	42.00	9,630.5	-4.1	- 30.1	- 37.7
Czech Republic	31.5	37.3	48.2	3.05	459.4	+1.3	+ 16.4	+ 31.4
Hungary	250	279	382	9.81	7,334.8	+3.4	+ 2.9	+ 13.3
Poland	4.16	4.27	6.37	8.58	13,326.7	+3.2	- 4.3	- 9.0
Russia	31.6	29.4	48.4	21.00	350.4‡	+4.6	+ 39.6	+ 34.8
EMF (MSCI)*	1.00	1.00	1.53	na	302.3	+2.6	na	- 4.7
EMBI+†	1.00	1.00	1.53	na	202.8	+3.3	na	+ 1.2

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms.
Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; JP Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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